
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in doubt about this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Zheda Lande Scitech Limited, you should at once hand this circular to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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浙江浙大網新蘭德科技股份有限公司

ZHEDA LANDE SCITECH LIMITED*

(a joint stock limited company incorporated in the People's Republic of China with limited liability)

(Stock Code: 8106)

MAJOR AND CONNECTED TRANSACTIONS

CROSS-GUARANTEE AGREEMENTS

**Independent financial adviser to the Independent Board Committee and
the Independent Shareholders of the Company**



KGI CAPITAL ASIA LIMITED

A notice convening an extraordinary general meeting of the Company to be held at 2:00 p.m. on 11 October 2006 at 1/F-3/F, Block 3, 108 Gu Cui Road, Hangzhou City, the PRC is set out on pages 73 and 74 of this circular.

A form of proxy for use at the meeting is enclosed. Whether or not you are able to attend the meeting in person, you are requested to complete and return the accompanying form of proxy in accordance with the instructions contained therein. As regards to the holders of H Shares, the proxy form shall be lodged with the Company's branch share registrar in Hong Kong, Hong Kong Registrars Limited at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, and as regards to the holders of Domestic Shares, the proxy form shall be lodged at the Company's registered office at 4th Floor, 108 Gu Cui Road, Hangzhou City, the PRC, as soon as possible and in any event not later than 24 hours before the time scheduled for holding such meeting (or any adjourned meeting thereof). Completion and delivery of the form of proxy will not preclude you from attending and voting in person at the meeting or any adjournment if you so desire.

This circular will remain on the GEM website at www.hkgem.com on the "Latest Company Announcements" page for 7 days from the date of its posting.

* For identification purpose only

CHARACTERISTICS OF GEM

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed companies.

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DEFINITIONS

In this circular, unless the context otherwise requires, the following expressions have the following meanings:

“Agreement”	the First Agreement or the Second Agreement (as the case may be) and “Agreements” shall mean the First Agreement and the Second Agreement
“associates”	has the same meaning as ascribed to it under the GEM Listing Rules
“Board”	the board of directors of the Company
“Company”	浙江浙大網新蘭德科技股份有限公司 (Zheda Lande Scitech Limited*), a joint stock limited company incorporated in the PRC with limited liability and whose H shares are listed on GEM
“Connected Person”	has the meaning as defined under the GEM Listing Rules
“Director(s)”	director(s) of the Company
“Domestic Shares”	domestic shares of nominal value RMB0.10 each in the share capital of the Company which are subscribed for in RMB
“EGM”	an extraordinary general meeting of the Company to be convened to approve, among other things, the Agreements and all the transactions contemplated thereunder or any adjournment thereof
“First Agreement”	the cross-guarantee agreement dated 4 July 2006 entered into among the Company, Insigma Group and Zheda Tuling
“GEM”	the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM
“Group”	the Company and its subsidiaries

* For identification purpose only

DEFINITIONS

“H Shares”	overseas listed foreign invested shares of nominal value RMB0.10 each in the share capital of the Company, which are subscribed for and traded in Hong Kong dollars
“Independent Board Committee”	the independent board committee of the Company constituted by three independent non-executive Directors, namely Mr. Cai Xiao Fu, Mr. Zhang De Xin and Mr. Gu Yu Lin, to advise the Independent Shareholders in relation to the First Agreement and the transactions contemplated thereunder
“Independent Shareholders”	the Shareholders other than Insigma Technology and its associates
“Independent Third Party”	person or entity which is independent of and not connected with the Company or its subsidiaries and any Connected Persons of the Company and any of their respective associates
“Insigma Group”	浙江浙大網新集團有限公司 (Zheda Insigma Group Co. Ltd.), a sino-foreign joint venture company incorporated in the PRC
“Insigma Technology”	浙大網新科技股份有限公司 (Insigma Technology Co. Ltd.) (formerly known as 浙江浙大網新科技股份有限公司 (Zhejiang University Innovation Technology Company Limited)), a joint stock limited company incorporated in the PRC with limited liability and whose shares are listed on the Shanghai Stock Exchange, and a substantial shareholder of the Company holding approximately 24.10% of the Company’s issued share capital
“KGI”	KGI Capital Asia Limited, a licensed corporation to carry out types 1, 4 and 6 regulated activities under the SFO, being the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on the connected transactions in relation to the First Agreement and the transactions contemplated thereunder
“Latest Practicable Date”	means 15 August 2006, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein

DEFINITIONS

“PRC”	the People’s Republic of China
“Qware Technology”	浙江浙大網新快威科技有限公司 (Zheda Innovation Qware Technology Co. Ltd.), a sino-foreign joint venture company established in the PRC
“RMB”	Renminbi, the lawful currency of the PRC
“Second Agreement”	the cross-guarantee agreement dated 4 July 2006 entered into among the Company, Insigma Group and Qware Technology
“SFO”	means the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong)
“Shareholder(s)”	holder(s) of the share(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Zheda Tuling”	浙江浙大網新圖靈信息科技有限公司 (Zhejiang University Innovation Tuling Information Technology Company Limited), a limited liability company incorporated in the PRC

LETTER FROM THE BOARD



浙江浙大網新蘭德科技股份有限公司

ZHEDA LANDE SCITECH LIMITED*

(a joint stock limited company incorporated in the People's Republic of China with limited liability)
(Stock Code: 8106)

Executive Directors:

Mr. Chen Ping
Mr. Xue Shi Cheng
Mr. Hu Yang Jun
Ms. Pan Lichun
Mr. Shi Lie

Registered office:

4th Floor
108 Gu Cui Road
Hangzhou City
The People's Republic of China

Independent Non-executive Directors

Mr. Cai Xiao Fu
Mr. Zhang De Xin
Mr. Gu Yu Lin

Principal place of business

in Hong Kong:
Units 1116-1119
Sun Hung Kai Center
30 Harbour Road
Wanchai
Hong Kong

17 August 2006

To the Shareholders,

Dear Sir or Madam,

MAJOR AND CONNECTED TRANSACTIONS

CROSS-GUARANTEE AGREEMENTS

INTRODUCTION

In the announcement of the Company dated 5 July 2006, the Company announced that on 4 July 2006, it entered into (i) the First Agreement with Insigma Group and Zheda Tuling, pursuant to which the Company agreed to provide Zheda Tuling with a guarantee for the maximum amount of RMB50,000,000 to secure Zheda Tuling's obligations in respect of its bank facilities and, in return, Insigma Group agreed to provide the Company with a guarantee for the maximum amount of RMB60,000,000 to secure the Company's obligations in respect of its bank facilities; and (ii) the Second Agreement with Insigma Group and Qware Technology, pursuant to which the Company agreed to provide Qware Technology with a guarantee for the maximum amount of RMB30,000,000 to secure Qware Technology's obligations in respect of its bank facilities and, in return, Insigma Group agreed to provide the Company with a guarantee for the maximum amount of RMB40,000,000 to secure the Company's obligations in respect of its bank facilities.

* For identification purpose only

LETTER FROM THE BOARD

The entry of each of the First Agreement and the Second Agreement constitutes a major transaction of the Company under Chapter 19 of the GEM Listing Rules. The entry of the First Agreement and the Second Agreement, when aggregated pursuant to Rule 19.22 of the GEM Listing Rules, also constitute a major transaction of the Company under Chapter 19 of the GEM Listing Rules. As Zheda Tuling is a Connected Person of the Company, the entry of the First Agreement constitutes a connected transaction for the Company under Chapter 20 of the GEM Listing Rules. The Agreements are subject to approval of the Independent Shareholders at the EGM. With respect to the connected transaction relating to the First Agreement and the transactions contemplated thereunder, an Independent Board Committee of the Company constituted by three independent non-executive Directors, namely Mr. Cai Xiao Fu, Mr. Zhang De Xin and Mr. Gu Yu Lin, has been formed to advise the Independent Shareholders, and KGI has been appointed as independent financial adviser to advise the Independent Board Committee and the Independent Shareholders.

The purpose of this circular is to provide you with information in relation to the provision of guarantees in accordance with the requirements of the GEM Listing Rules.

THE AGREEMENTS

The principle terms of the Agreements are summarized below:

Parties

First Agreement:	The Company, Insigma Group and Zheda Tuling
Second Agreement:	The Company, Insigma Group and Qware Technology

Date

4 July 2006

Provisions of Guarantees

First Agreement:	The Company shall provide Zheda Tuling with a guarantee for the maximum amount of RMB50,000,000 to secure Zheda Tuling's obligations in respect of its bank facilities. In return, Insigma Group shall provide the Company with a guarantee for the maximum amount of RMB60,000,000 to secure the Company's obligations in respect of its bank facilities.
Second Agreement:	The Company shall provide Qware Technology with a guarantee for the maximum amount of RMB30,000,000 to secure Qware Technology's obligations in respect of its bank facilities. In return, Insigma Group shall provide the Company with a guarantee for the maximum amount of RMB40,000,000 to secure the Company's obligations in respect of its bank facilities.

LETTER FROM THE BOARD

The provision of guarantees by the Company to each of Zheda Tuling and Qware Technology pursuant to the First Agreement and the Second Agreement respectively is not conditional on the provision of guarantees by Insigma Group to the Company. The Company has no obligation to provide its assets as security for the bank facilities of Zheda Tuling and Qware Technology pursuant to the Agreements.

The guarantees to be provided by Insigma Group to the Company pursuant to the Agreements are not back-to-back guarantees, i.e., if Zheda Tuling or Qware Technology defaults in their repayment obligations under the principal loan agreements, the Company is not entitled to receive any indemnification from Insigma Group. In the event Insigma Group, in breach of the Agreements, defaults in the provision of the guarantees to the Company, the Company is entitled to institute legal proceedings against Insigma Group for recovery of losses and damages.

The amount of guarantees was determined after arm's length negotiation between the parties taking into account the estimation on the financial needs of the parties.

Condition precedent

The provision of guarantees pursuant to each of the Agreements is conditional upon the approval of the respective Agreements and the transactions contemplated thereunder at the EGM by the Independent Shareholders as required by the GEM Listing Rules. Notwithstanding the foregoing, the First Agreement and the Second Agreement are not conditional on each other.

If the above condition precedent is not fulfilled on 31 December 2006 or such other date as the parties to the Agreement shall agree in writing, the Agreement shall be terminated and have no effect. In such event neither party shall have any claims against the other for any loss or damages, save for antecedent breaches.

Term of guarantee

Three years.

Type of bank facilities

Bank facilities including bank loans and bills payable.

Early termination

If the borrower is suffering from substantive loss or in the process of dissolution, the guarantor shall have the rights to terminate the relevant Agreement forthwith and report to the relevant financial institutions.

LETTER FROM THE BOARD

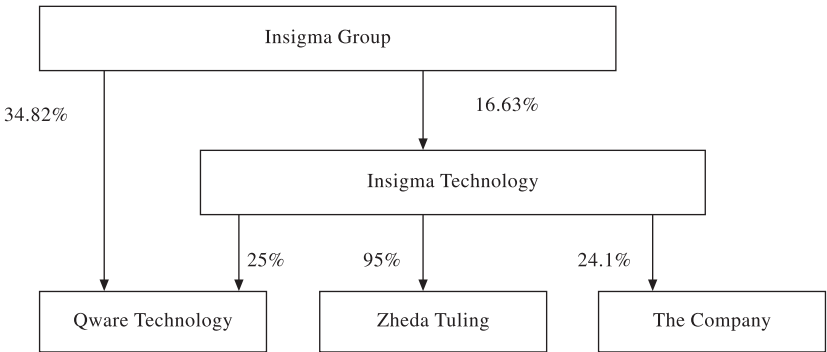
Other terms

The period of cross-guarantee of each of the Agreements is three years from the date on which the respective Agreements and the transactions contemplated thereunder are approved by the Independent Shareholders at the EGM as required by the GEM Listing Rules, within which period the borrowers are entitled to request the guarantors to execute the relevant guarantee documentations. Upon expiry of the period of cross-guarantee, the parties may negotiate for a renewal of the relevant Agreement.

INFORMATION OF THE PARTIES

The Company	A joint stock limited company incorporated in the PRC with limited liability and its H shares are listed on GEM. The Group’s principal activities are the provision of telecommunication solutions and related services, trading of hardware and computer software and investment holding.
Insigma Group	A sino-foreign joint venture company incorporated in the PRC with a registered capital of RMB337,026,000 and is involved in invention and development of computer software and telecommunication equipment, consultancy services on economic data and environmental protection data, and research and development of high and new technology.
Zheda Tuling	A limited liability company incorporated in the PRC and is involved in sales, services, and research and development in respect of information technology products.
Qware Technology	A sino-foreign joint venture company incorporated in the PRC and is principally engaged in development, services, consultancy and transfer in respect of information technology, system integration, and design, installation and engineering contractual services in respect of security system.

Set out below is the existing shareholding relationship between the parties:



LETTER FROM THE BOARD

Mr. Shi Lie, an executive Director, is the director of each of Insigma Group, Insigma Technology, and Zheda Tuling. Ms. Pan Lichun, an executive Director, is the director of each of Insigma Technology, Zheda Tuling and Qware Technology.

Save as disclosed herein, to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, each of Insigma Group, Zheda Tuling and Qware Technology and their respective ultimate beneficial owner(s) is an Independent Third Party.

REASONS FOR ENTERING INTO THE AGREEMENT

With the tightening of the lending policies and regulations of banks in the PRC, it is a common practice for banks in the PRC to request for either guarantees or pledge of assets as security of bank facilities granted to borrowers. To the best knowledge and understanding of the Directors, banks in the PRC would only accept guarantees provided by creditworthy enterprises, but not corporate guarantee of individual company for the banking facilities of its own so as to reduce the risk of non-recovery. As such, banks in the PRC prefer third party guarantee to pledge of assets as security of bank facilities as risk of non-recovery is lower.

It is a usual practice of banks in the PRC requiring borrowers to provide valuation reports by professional valuers for their consideration before they will accept pledge of assets as security of bank facilities. Under the cross-guarantee arrangements, the Company is not required to incur any valuation fees. The Company is also not required to pay any fee or charge or provide any security in relation to reciprocal guarantees. Accordingly, administrative and finance costs of the Company under the cross-guarantee arrangements will be lower than that under pledging of assets as security.

Under the cross-guarantee arrangements, the amount of the reciprocal guarantees to be provided by Insigma Group to the Company exceeds the amount of guarantees to be provided by the Company to each of Zheda Tuling and Qware Technology.

The Directors consider that the cross-guarantee arrangement facilitates the Company to obtain bank facilities as it is the practice and preference of lending banks in the PRC to require the provision of third party guarantee as security of bank facilities, and minimize the costs of the Company's financing activities.

The Company has reviewed the information of Zheda Tuling and Qware Technology, including their respective financial information, in assessing their repayment ability. Having considered the foregoing reasons and the repayment ability and financial position of Zheda Tuling and Qware Technology, the Directors (including the independent non-executive Directors) are of the view that the terms of the Agreements and the transactions contemplated thereunder are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

FINANCIAL IMPACTS

The entering into the Agreements and provision of guarantees pursuant thereto will not have any immediate effects on the earnings and assets and liabilities of the Company. However, the Company will be responsible for repayment of the bank facilities of which it will have provided guarantee together with payment of all related interests, penalties, damages and the banks' expenses incurred in the enforcement of the relevant principal bank facilities agreements and guarantees, if there shall be any default in repayment of such bank facilities. In such case, the Company may have to use its internal resources to fulfill its obligation under the guarantees. As at 30 June 2006, the Group had net current assets of approximately RMB100.8 million and had profit attributable to shareholders of approximately RMB0.17 million. If Zheda Tuling and Qware Technology fully utilize the bank facilities which the Company will guarantee pursuant to the Agreements and the Company is demanded to honour its guarantee obligations to repay the bank facilities of RMB80 million, the Company will have sufficient internal resources to fulfill its guarantee obligation. As a result of the repayment, the Company's assets and earnings will be decreased by RMB80 million while the Company's actual liabilities will be increased by RMB80 million.

MAJOR AND CONNECTED TRANSACTIONS

The entry of each of the First Agreement and the Second Agreement constitutes a major transaction for the Company under Chapter 19 of the GEM Listing Rules. The entry of the First Agreement and the Second Agreement, when aggregated pursuant to Rule 19.22 of the GEM Listing Rules, also constitute a major transaction of the Company under Chapter 19 of the GEM Listing Rules. As Zheda Tuling is a Connected Person of the Company, the entry of the First Agreement constitutes a connected transaction for the Company under Chapter 20 of the GEM Listing Rules.

EGM

Set out on pages 73 and 74 of this circular is a notice of the EGM to be held at 2:00 p.m. on 11 October 2006 at 1/F-3/F, Block 3, 108 Gu Cui Road, Hangzhou City, the PRC for the purpose of considering and, if thought fit, passing ordinary resolutions to approve the Agreements. Insignia Technology together with its associates with interests in the Agreements, holding 81,802,637 Domestic Shares, representing approximately 24.10% of the issued share capital of the Company as at the Latest Practicable Date, will abstain from voting on the resolutions to approve the Agreements and the transactions contemplated thereunder at the EGM. The voting will be taken by poll.

A form of proxy for use at the EGM is enclosed. Whether or not you are able to attend the meeting in person, you are requested to complete and return the accompanying form of proxy in accordance with the instructions contained therein. As regards to the holders of H Shares, the proxy form shall be lodged with the Company's branch share registrar in Hong Kong, Hong Kong Registrars Limited at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, and as regards to the holders of Domestic Shares,

LETTER FROM THE BOARD

the proxy form shall be lodged at the Company's registered office at 4th Floor, 108 Gu Cui Road, Hangzhou City, the PRC, as soon as possible and in any event not later than 24 hours before the time scheduled for holding the EGM (or any adjourned meeting thereof). Completion and delivery of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment if you so desire.

OPINION OF THE INDEPENDENT BOARD COMMITTEE

Your attention is drawn to (i) the letter from the Independent Board Committee set out in this circular which contains the opinion of the Independent Board Committee given to the Independent Shareholders concerning the First Agreement; and (ii) the letter from KGI setting out in this circular which contains the advice of KGI given to the Independent Board Committee and the Independent Shareholders in relation to the First Agreement and the principle factors and reasons considered by KGI in arriving at its advice.

The Independent Board Committee, having taken into account the advice of KGI, are of the opinion that the transactions under the First Agreement are in the interests of the Company and the Shareholders as a whole, and that the terms thereof are fair and reasonable as far as the interests of the Independent Shareholders are concerned. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the First Agreement.

PROCEDURES TO DEMAND A POLL AT GENERAL MEETING

Pursuant to article 76 of the Articles of Association, a resolution put to the vote of the general meeting shall be decided on a show of hands unless a poll is (before or after any vote by show of hands) demanded:

- (i) by the chairman of the meeting;
- (ii) by at least two Shareholders present in person or by proxy for the time being entitled to vote at the meeting; or
- (iii) by any Shareholder or Shareholders (including proxy) who, alone or together, representing one-tenth or more of the total voting rights of all Shareholders having the right to vote at the meeting.

Unless a poll is demanded, a declaration by the chairman that a resolution has been passed on a show of hands and the record of such in the minutes of the meeting shall be conclusive evidence of the fact such resolution has been passed. There is no need to provide evidence on the number or proportion of votes in favour of or against such resolution.

LETTER FROM THE BOARD

ADDITIONAL INFORMATION

Your attention is drawn to the financial information of the Company and the general information set out in appendices to this circular.

By order of the Board
ZHEDA LANDE SCITECH LIMITED*
Chen Ping
Chairman

* *For identification purpose only*

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



浙江浙大網新蘭德科技股份有限公司

ZHEDA LANDE SCITECH LIMITED*

(a joint stock limited company incorporated in the People's Republic of China with limited liability)

(Stock Code: 8106)

17 August 2006

To the Independent Shareholders

CONNECTED TRANSACTIONS CROSS-GUARANTEE AGREEMENTS

Dear Sir or Madam,

We refer to the circular (the "Circular") dated 17 August 2006 of Zheda Lande Scitech Limited, of which this letter forms a part. The terms used in the Circular shall have the same meaning in this letter unless the context otherwise requires.

We have been appointed to form the Independent Board Committee to consider the terms of the First Agreement and to advise the Independent Shareholders of the Company whether, in our opinion, such terms are fair and reasonable and in the interests of the Company and the Shareholders as a whole. KGI Capital Asia Limited has been appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the First Agreement.

We wish to draw you attention to the letter from the Board, as set out in pages 4 to 11 of the Circular, and the letter from KGI Capital Asia Limited, as set out on pages 13 to 18 of the Circular, both of which provide details of the Agreement. Having considered the advice given by KGI Capital Asia Limited and the principal factors and reasons taken into consideration by them in arriving at their advice, we are of the opinion that the transactions under the First Agreement are in the interests of the Company and the Shareholders as a whole, and that the terms and conditions thereof are fair and reasonable as far as the Independent Shareholders are concerned. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the First Agreement.

Yours faithfully,

Independent Board Committee

Cai Xiao Fu

*Independent Non-Executive
Director*

Zhang De Xin

*Independent Non-Executive
Director*

Gu Yu Lin

*Independent Non-Executive
Director*

* For identification purpose only

LETTER FROM KGI

The following is the text of a letter of advice to the Independent Board Committee and the Independent Shareholders from KGI setting out its opinion regarding the First Agreement and the transactions contemplated thereunder prepared for the purpose of incorporation in this circular:



KGI CAPITAL ASIA LIMITED

27/F ICBC Tower
Citibank Plaza
3 Garden Road
Central Hong Kong

Tel: 2878 6888

Fax: 2970 0080

17 August 2006

To the Independent Board Committee
and Independent Shareholders
Zheda Lande Scitech Limited
Room 1116-1119
Sun Hung Kai Center
30 Harbour Road
Wanchai
Hong Kong

Dear Sirs,

CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the connected transactions relating to the First Agreement and the transactions contemplated thereunder, particulars of which are set out in the “Letter from the Board” (the “Letter”) contained in the circular to the Shareholders dated 17 August 2006 (the “Circular”) and in which this letter is reproduced. Unless the context requires otherwise, terms used in this letter shall have the same meanings as given to them under the definitions section of the Circular.

LETTER FROM KGI

On 4 July 2006, the Company entered into the First Agreement with Insignia Group and Zheda Tuling, pursuant to which the Company agreed to provide Zheda Tuling with a guarantee for the maximum amount of RMB50,000,000 to secure Zheda Tuling's obligations in respect of its bank facilities and, in return, Insignia Group agreed to provide the Company with a guarantee for the maximum amount of RMB60,000,000 to secure the Company's obligations in respect of its bank facilities.

Pursuant to Rule 20.11 and 25.04 of the GEM Listing Rules, Zheda Tuling is regarded as a connected person by virtue of it being the associate of the Company, as Insignia Technology, one of the substantial shareholders who owns approximately 24.1% of the issued share capital of the Company, holds approximately 95.0% of the issued capital of Zheda Tuling. Thus, the First Agreement constitutes a connected transaction of the Company under Chapter 20 of the GEM Listing Rules. The First Agreement will be subject to, among other things, approval of the Independent Shareholders at the EGM with votes taken by poll.

THE INDEPENDENT BOARD COMMITTEE

An independent board committee, comprising Mr. Cai Xiao Fu, Mr. Zhang De Xin and Mr. Gu Yu Lin being the independent non-executive Directors, has been established to consider the rationales and terms in relation to the connected transactions relating to the First Agreement and the transactions contemplated thereunder and to advise the Independent Shareholders thereon.

We have been appointed by the Independent Board Commitment to advise them as to whether or not the connected transactions relating to the First Agreement and the transactions contemplated thereunder are fair and reasonable and are in the interests of the Company and the Independent Shareholders as a whole.

BASIS OF OUR OPINION

In formulating our opinion and recommendation, we have relied to a considerable extent on the information, statements, opinion and representations provided to us by the Company and the Directors and we have assumed that all such information, statements, opinions and representations contained or referred to in the Circular were true and accurate and complete at the time they were made and continue to be true at the date of the Circular, and we have relied on the same. We have also assumed that all statements of belief, opinion and intention of the Directors as set out in the Letter were reasonably made after due and careful inquiry. We have also sought and obtained confirmation from the Company that no material facts have been omitted from the information provided and referred to in the Circular.

We have been provided with and researched the relevant market information and relevant governing rules, and we have reviewed for the fairness and reasonableness of the assumptions or projections including currently available information and documents which are available under present circumstances to enable us to reach an informed view and to justify reliance on the accuracy of the information contained in the Circular so as to provide a reasonable basis

LETTER FROM KGI

of our opinion and recommendation. There are no exceptional reason for us to suspect that any material facts or information (which is known to the Company) have been omitted or withheld from the information provided or opinions expressed in the Circular nor to doubt the truth and accuracy of the information and facts, or the reasonableness of the opinions expressed by the Company and the Directors which have been provided to us. We have not, however, carried out any independent verification on the information provided to us by the Directors, nor have we conducted an independent in-depth investigation into the business and affairs of the Group.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation to the Independent Board Committee, we have taken the following principal factors and reasons into consideration:

1. Background information

The Company is principally engaged in the development and sales of software and network system, to provide technical support services, sales of hardware and investment holdings.

Insignia Group is a sino-foreign joint venture company with a registered capital of RMB337,026,000 and is involved in invention and development of computer software and telecommunication equipment, consultancy services on economic data and environmental protection data, and research and development of high and new technology.

Zheda Tuling is a limited liability company incorporated in the PRC and is involved in sales, services, and research and development in respect of information technology products.

Based on the annual report of the Group for the year ended 31 December 2005 (the “Annual Report”), the Group suffered a net loss attributable to the shareholders of approximately RMB28,348,000 for the financial year ended 31 December 2005. During the financial year ended 31 December 2004, the Group had a net profit attributable to the shareholders of approximately RMB10,296,000. The turnover of the Group decreased from approximately RMB185,639,000 for the financial year ended 31 December 2004 to approximately RMB118,208,000 for the financial year ended 31 December 2005, which represented a decrease of approximately 36.32%. As disclosed in the Annual Report, the deterioration of the financial conditions of the Group for the financial year ended 31 December 2005 was mainly due to the fact that (i) the market situation was bad with sheer competition; (ii) a gradual recession in the investment scale of the communication industry, in particular the application service system construction; and (iii) the value-added services of the Group is still at its developing stage, and in turn, the expenditure used in the construction of platform, research, development and marketing of products are high, and longer time for return is needed.

LETTER FROM KGI

According to the Annual Report, the Company had short-term borrowings of approximately RMB71 million which was secured by guarantees provided by (i) Mr. Chen Ping, the chairman of the Company and an executive Director of the Company; (ii) Mr. Chen Ping and Ms. Yang Jie, the wife of Mr. Chen Ping; and (iii) Zhejiang University Innovation Information Holdings Company Limited. All the short-term borrowings are to be repaid within one year.

According to the interim results announcement of the Group for the 6 months ended 30 June 2006, the Group had short-term borrowings of approximately RMB93.8 million. According to the Annual Report, the Group had short-term borrowings of approximately RMB74 million as at 31 December 2005.

According to the interim results announcement of the Group for the 6 months ended 30 June 2006, the Group's unaudited turnover was approximately RMB46 million which represented an approximately 16.8% decrease as compared with the unaudited turnover for the corresponding period in 2005. The Group's unaudited net profit for the 6 months ended 30 June 2006 is approximately RMB174,000 which represented an approximately 95.96% decrease as compared with the unaudited net profit for the corresponding period in 2005. According to the Directors, during the 6 months ended 30 June 2006, the Group intensified its product development and operation promotion of value-added services business. The Group continues to put effort into product development of the enterprise gateway unification for China Unicom enterprises.

2. Terms of the First Agreement

Pursuant to the First Agreement, the principal terms, among other things,

- (i) the Company agreed to provide Zheda Tuling with a guarantee for the maximum amount of RMB50,000,000 to secure Zheda Tuling's obligations in respect of its bank facilities and, in return, Insigma Group agreed to provide the Company with a guarantee for the maximum amount of RMB60,000,000 to secure the Company's obligations in respect of its bank facilities;
- (ii) if Zheda Tuling suffers substantial loss or in the process of dissolution, the Company shall have rights to terminate the First Agreement forthwith and notify the relevant financial institutions;
- (iii) the guarantee to be provided by Insigma Group to the Company is not a back-to-back guarantee to the guarantee to be provided by the Company to Zheda Tuling, i.e., in the event that Zheda Tuling defaults in its repayment obligations under the principal loan agreements, the Company is not entitled to receive any indemnification from Insigma Group; and
- (iv) the First Agreement and the Second Agreement are not conditional upon each other.

LETTER FROM KGI

3. Reasons for entering into the First Agreement

According to the Directors, with the tightening of the lending policies and regulations of banks in the PRC, banks in the PRC would only accept guarantees provided by creditworthy enterprises, but not corporate guarantee of individual company, for the banking facilities of its own so as to reduce the risk of non-recovery. As such, banks in the PRC prefer third party guarantee, which is provided by creditworthy enterprises, to pledge of assets as security of bank facilities as risk of non-recovery is considered low.

Furthermore, it is a usual practice, when obtaining bank facilities, banks in the PRC is required to provide valuation reports made by professional valuers for their consideration before they will accept the pledge of assets as security for bank facilities, which arrangement will incur extra cost to the Company. Therefore, the entry of the First Agreement allows the Company to avoid the need to pay any fees or charges in providing the valuation reports. Accordingly, administrative and finance costs of the Company under the First Agreement will be lower than that under pledging of assets as security.

In addition, under the First Agreement, the amount of the guarantee to be provided by the Inigma Group to the Company, i.e. RMB60,000,000, exceeds the amount of the guarantee to be provided by the Company to Zheda Tuling, i.e. RMB50,000,000.

According to the Directors, as the short-terms of the bank borrowing of the Company will expire in 2006, without entering into the First Agreement, the Company will be difficult to obtain new bank borrowings and, consequently, the Company may suffer adverse financial impact. In addition, in the light of the deteriorated financial position, the Group is limited in obtaining alternative means of financing, such as bank borrowings with favourable terms, or equity fund raising, such as placing of the shares of the Company to potential investors, rights issues or open offers. Therefore, the entering into the First Agreement is in the interests of the Company and the Shareholders as a whole.

We have reviewed the information of Zheda Tuling, including its 2005 audited financial report and latest financial information, to assess Zheda Tuling's repayment ability. We concur with the views of the Directors that the terms of the First Agreement are in the interests of the Company and the Shareholders as a whole.

4. Financial impacts

We concur with the Directors that the entering into the First Agreement and the provision of guarantees pursuant thereto will not have any immediate effects on the earnings, assets and liabilities of the Company.

Despite the fact that the First Agreement has an early termination arrangement, the Shareholders should note that, subject to the bank facilities agreement(s) to be entered into between Zheda Tuling and the bank(s), in the event that Zheda Tuling defaults its repayment obligations, the Company will be held responsible for repaying of the outstanding balance(s)

LETTER FROM KGI

and/or fulfilling the liabilities thereto, including but not limited to payment of all related interests, penalties, damages and the banks' expenses to be incurred up to the level of RMB50,000,000, which represented the maximum amount of the guarantee to be provided by the Company to Zheda Tuling as contemplated under the First Agreement.

In addition, the Company is one of the parties entering into the Second Agreement. Despite the fact that the Second Agreement has an early termination arrangement, the Shareholders should note that, subject to the bank facilities agreement(s) to be entered into between Qware Technology and the bank(s), in the event that Qware Technology defaults in its repayment obligations, the Company will be held responsible for repaying the outstanding balance(s) and/or fulfilling the liabilities thereunder, including but not limited to payment of all related interests, penalties, damages and the banks' expense to be incurred up to the level of RMB30,000,000, which represented the maximum amount of the guarantee to be provided by the Company to Qware Technology as contemplated under the Second Agreement.

In the event that Zheda Tuling and Qware Technology default in their respective repayment obligations, as the Company is one of the parties entering into the First and Second Agreements, the Company will be held responsible for repaying the outstanding balances and/or fulfilling the liabilities thereunder, including but not limited to payment of all related interests, penalties, damages and the banks' expense to be incurred up to the level of RMB80,000,000, in aggregate, which represented the maximum amount of the guarantees to be provided by the Company to Zheda Tuling and Qware Technology as contemplated under the First and Second Agreements. According to the interim report for the 6 months ended 30 June 2006, the unaudited consolidated net asset value of the Group is approximately RMB121,355,000.

RECOMMENDATION

Having considered the above principal factors and reasons, particularly the factors that (i) the lending policies of the banks in the PRC ; and (ii) the deteriorating financial position of the Group which renders the Company very restrictive alternative in obtaining financing, we are of the view that the connected transactions relating to the First Agreement and the transactions contemplated thereunder are fair and reasonable so far as the interests of the Independent Shareholders are concerned and are in the interests of the Company and the Independent Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders and recommend the Independent Shareholders to vote in favour of the ordinary resolutions to approve the connected transactions relating to the First Agreement and the transactions contemplated thereunder that will be proposed at the EGM.

Yours faithfully,
For and on behalf of
KGI Capital Asia Limited
Laurent Leung
Director

1. SUMMARY OF FINANCIAL STATEMENTS

Set out below is a summary of the audited consolidated income statements of the Company for the years ended 31 December 2003, 2004 and 2005 and the unaudited consolidated income statements of the Company for the six months ended 30 June 2006 together with the comparative unaudited figures for the corresponding period in 2005, and the audited balance sheets and consolidated balance sheets of the Company at 31 December 2003, 2004 and 2005 and the unaudited consolidated balance sheet of the Company as at 30 June 2006, as extracted from the Company's annual reports for the year ended 31 December 2004 and 2005 and the Company's interim report for the six months ended 30 June 2006.

Audited Consolidated Income Statements

For the years ended 31 December 2003, 2004 and 2005

	2005 <i>RMB'000</i>	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>
Turnover	118,208	185,639	164,551
Cost of sales	(97,241)	(129,517)	(117,464)
Gross profit	20,967	56,122	47,087
Other operating income	10,899	1,351	4,427
Distribution costs	(11,493)	(10,067)	(12,290)
Administrative expenses	(45,459)	(27,471)	(19,172)
(Loss)/profit from operations	(25,086)	19,935	20,052
Share of results of associates			
– Share of profits/(losses) of associates	2,030	(1,558)	(542)
– Share of tax of associates	(62)	–	–
	1,968	(1,558)	(542)
Finance costs	(4,427)	(4,610)	(3,153)
Interest income	257	363	830
(Loss)/profit before tax	(27,288)	14,130	17,187
Tax expense	(400)	(3,609)	(785)
(Loss)/profit for the year	<u>(27,688)</u>	<u>10,521</u>	<u>16,402</u>
Attributable to:			
– Equity holders of the Company	(28,348)	10,296	12,240
– Minority interests	660	225	4,162
	<u>(27,688)</u>	<u>10,521</u>	<u>16,402</u>
Dividend	<u>–</u>	<u>–</u>	<u>–</u>
(Loss)/earnings per share			
– Basic (RMB)	<u>(0.083)</u>	<u>0.030</u>	<u>0.036</u>

APPENDIX I**FINANCIAL INFORMATION OF THE COMPANY****Unaudited Consolidated Income Statements***For the six months ended 30 June 2005 and 2006*

	2006 <i>RMB'000</i>	2005 <i>RMB'000</i>
Turnover	46,322	55,678
Cost of sales	<u>(32,193)</u>	<u>(36,207)</u>
Gross profit	14,129	19,471
Distribution costs	(4,377)	(5,270)
Administrative expenses	(11,068)	(11,024)
Value-added tax refunds	2,007	3,785
Other operating income, net	<u>166</u>	<u>350</u>
Profit from operations	857	7,312
Finance costs, net	(1,974)	(2,333)
Share of profits/(losses) of associates	<u>2,788</u>	<u>(160)</u>
Profit before tax	1,671	4,819
Tax expense	<u>(766)</u>	<u>(693)</u>
Profit/(loss) for the period	<u>905</u>	<u>4,126</u>
Attributable to:		
– Equity holders of the Company	174	4,308
– Minority interests	<u>731</u>	<u>(182)</u>
	<u>905</u>	<u>4,126</u>
Earnings per share – basic	<u>RMB0.001</u>	<u>RMB0.013</u>

APPENDIX I**FINANCIAL INFORMATION OF THE COMPANY****Consolidated Balance Sheets**

	Unaudited		Audited	
	As at		As at	31 December
	30 June		2005	2004
	2006		2003	2003
	<i>RMB'000</i>		<i>RMB'000</i>	<i>RMB'000</i>
Assets				
Non-current assets				
Property, plant and equipment	7,457	7,519	7,606	8,111
Intangible assets	24,521	6,630	11,895	4,780
Interests in associates	8,208	7,580	6,300	3,858
Long-term prepayments	1,845	1,459	396	418
	<u>42,031</u>	<u>23,188</u>	<u>26,197</u>	<u>17,167</u>
Total non-current assets	42,031	23,188	26,197	17,167
	<u>42,031</u>	<u>23,188</u>	<u>26,197</u>	<u>17,167</u>
Current assets				
Inventories	2,563	2,196	10,062	9,538
Contract work in progress	37,603	15,667	14,743	22,230
Trade and notes receivables	60,545	66,171	103,340	60,549
Prepayments and other				
receivables	99,081	90,157	90,617	56,584
Amounts due from associates	1,895	1,733	1,527	1,091
Pledged bank deposits	14,622	19,848	11,020	11,619
Bank balances and cash	14,863	55,955	39,804	82,912
	<u>231,172</u>	<u>251,727</u>	<u>271,113</u>	<u>244,523</u>
Total current assets	231,172	251,727	271,113	244,523
	<u>231,172</u>	<u>251,727</u>	<u>271,113</u>	<u>244,523</u>
Total assets	<u>273,203</u>	<u>274,915</u>	<u>297,310</u>	<u>261,690</u>
	<u>273,203</u>	<u>274,915</u>	<u>297,310</u>	<u>261,690</u>
Liabilities				
Current liabilities				
Trade and notes payables	29,652	45,643	44,672	36,216
Receipt in advance from				
customers	3,956	10,773	10,060	8,507
Other payables and accruals	1,252	10,173	13,536	1,752
Current tax liabilities	1,798	1,589	3,245	863
Short-term borrowings	93,750	74,000	66,500	65,000
	<u>130,408</u>	<u>142,178</u>	<u>138,013</u>	<u>112,338</u>
Total current liabilities	130,408	142,178	138,013	112,338
	<u>130,408</u>	<u>142,178</u>	<u>138,013</u>	<u>112,338</u>
TOTAL NET ASSETS	<u>142,795</u>	<u>132,737</u>	<u>159,297</u>	<u>149,352</u>
	<u>142,795</u>	<u>132,737</u>	<u>159,297</u>	<u>149,352</u>

APPENDIX I

FINANCIAL INFORMATION OF THE COMPANY

	Unaudited		Audited	
	As at		As at	31 December
	30 June		2005	2004
	2006			2003
	RMB'000		RMB'000	RMB'000
Capital and reserves attributable to equity holders of the Company				
Share capital	33,958	33,958	33,958	33,958
Share premium	71,988	71,988	71,988	71,988
Statutory surplus reserve	6,910	6,910	6,009	4,719
Statutory public welfare reserve	3,657	3,657	3,657	3,012
Retained earnings	4,842	4,668	33,917	25,556
Proposed dividend	—	—	—	3,396
	121,355	121,181	149,529	142,629
Minority interests	21,440	11,556	9,768	6,723
TOTAL EQUITY	142,795	132,737	159,297	149,352

APPENDIX I**FINANCIAL INFORMATION OF THE COMPANY****Audited Balance Sheets***At 31 December 2003, 2004 and 2005*

	2005 <i>RMB'000</i>	2004 <i>RMB'000</i> (Restated)	2003 <i>RMB'000</i> (Restated)
Assets			
Non-current assets			
Property, plant and equipment	4,595	4,629	5,095
Intangible assets	6,262	11,895	4,780
Investments in subsidiaries	36,895	37,959	20,459
Investments in associates	4,400	4,400	4,522
Long-term prepayments	1,459	396	418
Total non-current assets	53,611	59,279	35,274
Current assets			
Inventories	–	2,297	1,915
Contract work in progress	13,670	14,098	22,165
Trade and notes receivables	54,365	88,361	40,094
Prepayments and other receivables	65,433	55,293	34,537
Amounts due from subsidiaries	10,334	14,622	15,859
Amounts due from associates	1,701	1,527	1,091
Pledged bank deposits	19,848	5,020	11,619
Bank balances and cash	42,887	29,911	71,578
Total current assets	208,238	211,129	198,858
Total assets	261,849	270,408	234,132
Liabilities			
Current liabilities			
Trade and notes payables	42,854	35,226	34,559
Receipt in advance from customers	8,732	9,210	7,950
Other payables and accruals	7,709	11,058	343
Amount due to subsidiaries	14,200	914	793
Current tax liabilities	351	2,809	599
Short-term borrowings	71,000	66,500	55,000
Total current liabilities	144,846	125,717	99,244
TOTAL NET ASSETS	117,003	144,691	134,888

APPENDIX I

FINANCIAL INFORMATION OF THE COMPANY

	2005	2004	2003
	RMB'000	RMB'000	RMB'000
		(Restated)	(Restated)
Capital and reserves attributable to equity holders of the Company			
Share capital	33,958	33,958	33,958
Share premium	71,988	71,988	71,988
Statutory surplus reserve	5,361	5,148	4,118
Statutory public welfare reserve	2,573	2,573	2,059
Retained earnings	3,123	31,024	19,369
Proposed final dividend	—	—	3,396
TOTAL EQUITY	117,003	144,691	134,888

2. AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

Set out below are the audited financial statements of the Company for the two years ended 31 December 2005, which are extracted from the annual report of the Company for the year ended 31 December 2005.

Consolidated Income Statement

For the year ended 31 December 2005

	<i>Notes</i>	2005 <i>RMB'000</i>	2004 <i>RMB'000</i>
Turnover	<i>4</i>	118,208	185,639
Cost of sales		<u>(97,241)</u>	<u>(129,517)</u>
Gross profit		20,967	56,122
Other operating income	<i>5</i>	10,899	1,351
Distribution costs		(11,493)	(10,067)
Administrative expenses		<u>(45,459)</u>	<u>(27,471)</u>
(Loss)/profit from operations	<i>6</i>	(25,086)	19,935
Share of results of associates			
– Share of profits/(losses) of associates		2,030	(1,558)
– Share of tax of associates		<u>(62)</u>	<u>–</u>
Finance costs	<i>10</i>	1,968	(1,558)
Interest income		<u>(4,427)</u>	<u>(4,610)</u>
		257	363
(Loss)/profit before tax		(27,288)	14,130
Tax expense	<i>11</i>	<u>(400)</u>	<u>(3,609)</u>
(Loss)/profit for the year		<u>(27,688)</u>	<u>10,521</u>
Attributable to:			
– Equity holders of the Company		(28,348)	10,296
– Minority interests		<u>660</u>	<u>225</u>
		<u>(27,688)</u>	<u>10,521</u>
Dividend	<i>12</i>	<u>–</u>	<u>–</u>
(Loss)/earnings per share	<i>13</i>		
– Basic (<i>RMB</i>)		<u>(0.083)</u>	<u>0.030</u>

APPENDIX I**FINANCIAL INFORMATION OF THE COMPANY****Consolidated Balance Sheet***As at 31 December 2005*

		2005	2004
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
Assets			
Non-current assets			
Property, plant and equipment	<i>14</i>	7,519	7,606
Intangible assets	<i>15</i>	6,630	11,895
Interests in associates	<i>17</i>	7,580	6,300
Long-term prepayments		<u>1,459</u>	<u>396</u>
Total non-current assets		<u>23,188</u>	<u>26,197</u>
Current assets			
Inventories	<i>18</i>	2,196	10,062
Contract work in progress		15,667	14,743
Trade and notes receivables	<i>19</i>	66,171	103,340
Prepayments and other receivables	<i>20</i>	90,157	90,617
Amounts due from associates	<i>28</i>	1,733	1,527
Pledged bank deposits	<i>21</i>	19,848	11,020
Bank balances and cash		<u>55,955</u>	<u>39,804</u>
Total current assets		<u>251,727</u>	<u>271,113</u>
Total assets		<u>274,915</u>	<u>297,310</u>
Liabilities			
Current liabilities			
Trade and notes payables	<i>22</i>	45,643	44,672
Receipt in advance from customers		10,773	10,060
Other payables and accruals		10,173	13,536
Current tax liabilities		1,589	3,245
Short-term borrowings	<i>23</i>	<u>74,000</u>	<u>66,500</u>
Total current liabilities		<u>142,178</u>	<u>138,013</u>
TOTAL NET ASSETS		<u>132,737</u>	<u>159,297</u>

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FINANCIAL INFORMATION OF THE COMPANY

		2005	2004
	Note	RMB'000	RMB'000
Capital and reserves attributable to equity holders of the Company			
Share capital	25	33,958	33,958
Share premium		71,988	71,988
Statutory surplus reserve		6,910	6,009
Statutory public welfare reserve		3,657	3,657
Retained earnings		4,668	33,917
		121,181	149,529
Minority interests		11,556	9,768
TOTAL EQUITY		132,737	159,297

APPENDIX I**FINANCIAL INFORMATION OF THE COMPANY****Balance Sheet***As at 31 December 2005*

	<i>Notes</i>	2005 <i>RMB'000</i>	2004 <i>RMB'000</i> (Restated)
Assets			
Non-current assets			
Property, plant and equipment	<i>14</i>	4,595	4,629
Intangible assets	<i>15</i>	6,262	11,895
Investments in subsidiaries	<i>16</i>	36,895	37,959
Investments in associates	<i>17</i>	4,400	4,400
Long-term prepayments		<u>1,459</u>	<u>396</u>
Total non-current assets		<u>53,611</u>	<u>59,279</u>
Current assets			
Inventories	<i>18</i>	–	2,297
Contract work in progress		13,670	14,098
Trade and notes receivables	<i>19</i>	54,365	88,361
Prepayments and other receivables	<i>20</i>	65,433	55,293
Amounts due from subsidiaries	<i>28</i>	10,334	14,622
Amounts due from associates	<i>28</i>	1,701	1,527
Pledged bank deposits	<i>21</i>	19,848	5,020
Bank balances and cash		<u>42,887</u>	<u>29,911</u>
Total current assets		<u>208,238</u>	<u>211,129</u>
Total assets		<u>261,849</u>	<u>270,408</u>
Liabilities			
Current liabilities			
Trade and notes payables	<i>22</i>	42,854	35,226
Receipt in advance from customers		8,732	9,210
Other payables and accruals		7,709	11,058
Amount due to subsidiaries	<i>28</i>	14,200	914
Current tax liabilities		351	2,809
Short-term borrowings	<i>23</i>	<u>71,000</u>	<u>66,500</u>
Total current liabilities		<u>144,846</u>	<u>125,717</u>
TOTAL NET ASSETS		<u>117,003</u>	<u>144,691</u>

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FINANCIAL INFORMATION OF THE COMPANY

		2005	2004
	Notes	RMB'000	RMB'000
			(Restated)
Capital and reserves attributable to equity holders of the Company			
Share capital	25	33,958	33,958
Share premium	26	71,988	71,988
Statutory surplus reserve	26	5,361	5,148
Statutory public welfare reserve	26	2,573	2,573
Retained earnings	26	3,123	31,024
TOTAL EQUITY		117,003	144,691

APPENDIX I

FINANCIAL INFORMATION OF THE COMPANY

Consolidated Statement of Changes in Equity

For the year ended 31 December 2005

	Share capital <i>RMB'000</i>	Share premium <i>RMB'000</i>	Statutory surplus reserve <i>RMB'000</i> <i>(Note 26(a))</i>	Statutory public welfare reserve <i>RMB'000</i> <i>(Note 26(b))</i>	Retained earnings <i>RMB'000</i>	Proposed final dividends <i>RMB'000</i>	Equity attributable to equity holders of the Company <i>RMB'000</i>	Minority interests <i>RMB'000</i>	Total <i>RMB'000</i>
Changes in equity									
At 1 January 2004	33,958	71,988	4,719	3,012	25,556	3,396	142,629	6,723	149,352
Profit for the year	–	–	–	–	10,296	–	10,296	225	10,521
Dividends paid	–	–	–	–	–	(3,396)	(3,396)	–	(3,396)
Capital contributions from minority interests	–	–	–	–	–	–	–	3,000	3,000
Dividend paid to minority interests	–	–	–	–	–	–	–	(180)	(180)
Transfer of retained earnings	–	–	1,290	645	(1,935)	–	–	–	–
At 31 December 2004	33,958	71,988	6,009	3,657	33,917	–	149,529	9,768	159,297
Loss for the year	–	–	–	–	(28,348)	–	(28,348)	660	(27,688)
Capital contributions from minority interests	–	–	–	–	–	–	–	2,207	2,207
Dividend paid to minority interests	–	–	–	–	–	–	–	(842)	(842)
Release of loss of subsidiaries upon partial disposal of the subsidiaries	–	–	–	–	–	–	–	(237)	(237)
Transfer of retained earnings	–	–	901	–	(901)	–	–	–	–
At 31 December 2005	33,958	71,988	6,910	3,657	4,668	–	121,181	11,556	132,737

Consolidated Cash Flow Statements*For the year ended 31 December 2005*

	<i>Note</i>	2005 <i>RMB'000</i>	2004 <i>RMB'000</i>
Operating activities			
(Loss)/profit before tax		(27,288)	14,130
Adjustments for:			
Interest expenses		4,294	4,562
Interest income		(257)	(363)
Impairment loss on loans and receivables		9,749	–
Depreciation of property, plant and equipment		2,400	2,292
Amortisation of intangible assets		5,612	4,245
Share of results of associates		(1,968)	1,558
Write-down of inventories to net realisable value		3,629	–
Gain on disposal of an associate		–	(100)
Gain on disposal of certain business	30	(5,014)	–
(Gain)/loss on disposal of property, plant and equipment		(2)	24
Gain on partial disposal of subsidiaries		(251)	–
Operating profit before changes in working capital and provisions			
		(9,096)	26,348
Decrease/(increase) in inventories		4,237	(524)
(Increase)/decrease in contract work in progress		(924)	7,487
Decrease/(increase) in trade and notes receivables		34,824	(42,791)
Increase in prepayments and other receivables		(5,176)	(31,033)
Decrease/(increase) in amounts due from associates		299	(436)
(Increase)/decrease in long-term prepayment		(1,063)	22
Increase in trade and notes payables		971	8,456
Increase in receipt in advance from customers		713	1,553
(Decrease)/increase in other payables and accruals		(3,564)	9,784
Cash from/(used in) operations			
		21,221	(21,134)
Interest received		257	363
Interest paid		(4,294)	(4,562)
PRC income tax paid		(2,056)	(1,227)
Net cash from/(used in) operating activities			
		15,128	(26,560)

APPENDIX I**FINANCIAL INFORMATION OF THE COMPANY**

		2005	2004
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
Investing activities			
Acquisition of a subsidiary, net of cash acquired	29	(424)	–
Proceeds from partial disposal of subsidiaries		2,100	–
Proceeds from disposal of certain business, net of cash received	30	3,500	–
Purchase of property, plant and equipment		(2,172)	(1,963)
Proceeds from disposal of property, plant and equipment		6	152
Purchases of intangible assets		–	(11,360)
Investment in an associate		–	(2,000)
Proceeds from disposal of an associate		–	100
Dividends received from an associate		183	–
(Increase)/decrease in pledged bank deposits		<u>(8,828)</u>	<u>599</u>
Net cash used in investing activities		<u>(5,635)</u>	<u>(14,472)</u>
Financing activities			
New bank borrowings raised		74,000	206,000
Repayment of bank borrowings		(66,500)	(204,500)
Dividends paid to minority interests		(842)	(180)
Dividends paid to equity shareholders		<u>–</u>	<u>(3,396)</u>
Net cash from/(used in) financing activities		<u>6,658</u>	<u>(2,076)</u>
Net increase/(decrease) in cash and cash equivalents		16,151	(43,108)
Cash and cash equivalents at beginning of year		<u>39,804</u>	<u>82,912</u>
Cash and cash equivalents at end of year, representing bank balances and cash		<u><u>55,955</u></u>	<u><u>39,804</u></u>

Notes to the Financial Statements*31 December 2005***1. GENERAL**

Zheda Lande Scitech Limited (the “Company”) is incorporated in the People’s Republic of China (the “PRC”) as a joint stock company with limited liability and its shares are listed on the Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The registered office and principal place of business of the Company is located at 4th Floor, No. 108 Gu Cui Road, Hangzhou City, PRC.

The Company is principally engaged in the provision of telecommunication solutions and other related services, trading of hardware and computer software and investment holding. The principal activities of its subsidiaries are set out in note 16 to the financial statements.

The financial statements are presented in Chinese Renminbi (“RMB”), which is the same as the functional currency of the Company.

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted a number of new and revised International Financial Reporting Standards (“IFRSs”), International Accounting Standards (“IASs”) and Interpretations (collectively the “new IFRSs”) issued by the International Accounting Standards Board (the “IASB”) and the International Financial Reporting Interpretations Committee of the IASB that are relevant to its operations and effective for accounting periods beginning on 1 January 2005. The adoption of these new IFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and consolidated statement of changes in equity. In particular, the presentation of minority interests and share of tax of associates have been changed. The changes in presentation have been applied retrospectively. The adoption of the new IFRSs has resulted in changes to the Group’s accounting policies in the following areas that have an effect on how the results for the current accounting periods are prepared and presented.

The impact of the changes in accounting policies is discussed below.

IFRS 3 “Business Combinations”*Goodwill*

In previous years, goodwill arising on acquisitions was amortised on a straight-line basis over its useful life and was subject to impairment testing when there were indications of impairment.

In accordance with the relevant transitional provisions under IFRS 3 and IAS 36 “Impairment of assets”, the Group has applied the new policy in respect of goodwill prospectively from 1 January 2005. Comparative figures for 2004 have not been restated. The cumulative amount of amortisation as at 1 January 2005 has been offset against the cost of goodwill. Goodwill is no longer amortised but is tested for impairment annually including the year of initial recognition, as well as when there are indications of impairment, at the cash generating unit level by applying a fair-value-based test in accordance with IAS 36.

IAS 32 “Financial Instruments: Disclosures and Presentation” and IAS 39 “Financial Instruments: Recognition and Measurement”

In the current year, the Group has applied IAS 32 “Financial Instruments: Disclosure and Presentation” and IAS 39 “Financial Instruments: Recognition and Measurement”. IAS 32 requires retrospective application. IAS 39, which is effective for annual periods beginning on or after 1 January 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The

application of IAS 32 has had no material impact on how financial instruments of the Group are presented for current and prior accounting periods. The principal effects resulting from the implementation of IAS 39 are summarised below:

Classification and measurement of financial assets and financial liabilities

From 1 January 2005 onwards, the Group has classified and measured its financial assets and financial liabilities other than debt and equity securities in accordance with the requirement of IAS 39. Under IAS 39, financial assets are classified as “financial assets at fair value through profit or loss”, “available-for-sale financial assets”, “loans and receivables”, or “held-to-maturity financial assets”. “Financial assets at fair value through profit or loss” and “available-for-sale financial assets” are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively. Available-for-sale equity investments that do not have quoted market prices in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are measured at cost less impairment after initial recognition. “Loans and receivables” and “held-to-maturity financial assets” are measured at amortised cost using the effective interest method after initial recognition. Financial liabilities are generally classified as “financial liabilities at fair value through profit or loss” or “other financial liabilities”. Financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value being recognised in profit or loss directly. Other financial liabilities are carried at amortised cost using the effective interest method after initial recognition. The Group has applied the relevant transitional provisions in IAS 39. However, there has been no material effect on how the results for the current accounting period are prepared and presented.

IAS 17 “Leases”

Owner-occupied Leasehold Interest in Land

In the current year, the Group has applied IAS 17 “Leases”. Under IAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to “Interests in leasehold land held for own use under operating leases”, which are carried at cost and amortised over the lease term on a straight-line basis. Alternatively, where the allocation between the land and buildings elements cannot be made reliably, the leasehold interests in land continue to be accounted for as property, plant and equipment.

IAS 17 “Consolidated financial statements and accounting for investments in subsidiaries” and IAS 28 “Accounting for investments in associates”

Investments in subsidiaries and associates

In previous years, investments in subsidiaries and associates were accounted for using equity method in the balance sheet of the Company. In the current year, the Company has applied IAS 27 “Consolidated financial statements and accounting for investments in subsidiaries” and IAS 28 “Accounting for investments in associates”, under which investments in subsidiaries and associates should be carried at cost in the balance sheet of the Company. This change in accounting policy has been applied retrospectively. As a result of this change in policy, the balance of retained earnings at 1 January 2004 has been decreased by RMB7,741,000, representing the cumulative effect of the change in policy on the results of the Company for periods prior to 1 January 2004. The balances of the investments in subsidiaries and investments in associates at 31 December 2004 have been decreased by RMB6,743,000 and increased by RMB1,968,000 respectively, representing the effect of the derecognition of share of post-acquisition profits/losses of the subsidiaries and associates at that date.

Potential impact arising on the new accounting standards not yet effective

The Group has not early applied, the following new standards and interpretations and amendments that were issued but are not yet effective:

IAS 1 (Amendment)	Capital disclosures ¹
IAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures ²
IAS 21 (Amendment)	Net investment in foreign operation ²
IAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions ²
IAS 39 (Amendment)	The fair value option ²
IAS 39 & IFRS 4 (Amendments)	Financial guarantee contracts ²
IFRS 6	Exploration for and evaluation of mineral resources ²
IFRS 7	Financial instruments: Disclosures ¹
IFRIC – INT 4	Determining whether an arrangement contains a lease ²
IFRIC – INT 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds ²
IFRIC – INT 6	Liabilities arising from participating in a specific market – waste electrical and electronic equipment ³
IFRIC – INT 7	Applying the restatement approach under IAS 29 Financial Reporting in Hyperinflationary Economies ⁴
IFRIC – INT 8	Scope of IFRS 2 ⁵
IFRIC – INT 9	Reassessment of Embedded Derivatives ⁶

¹ Effective for annual periods beginning on or after 1 January 2007.

² Effective for annual periods beginning on or after 1 January 2006.

³ Effective for annual periods beginning on or after 1 December 2005.

⁴ Effective for annual periods beginning on or after 1 March 2006.

⁵ Effective for annual periods beginning on or after 1 May 2006.

⁶ Effective for annual periods beginning on or after 1 June 2006.

The Group has considered these standards, interpretations and amendments but does not expect they will have material effect on how the results of the operations and financial position of the Group are prepared and presented.

3. ACCOUNTING POLICIES**Basis of preparation**

The principal accounting policies adopted in the preparation of the financial statements are set out below. The policies have been consistently applied to all the years presented unless otherwise stated.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs and IFRIC interpretations”) issued by the IASB and the applicable disclosure required by the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the GEM of the Stock Exchange.

The consolidated financial statements have been prepared on the historical cost basis except for financial instruments which are initially measured at fair value.

Basis of consolidation

Where the Company has the power, either directly or indirectly, to govern the financial and operating policies of another entity or business so as to obtain benefits from its activities, it is classified as a subsidiary. The consolidated financial statements present the results of the Company and its subsidiaries as if they formed a single entity. Intercompany transactions and balances between group companies are therefore eliminated in full.

Business combinations

The consolidated financial statements incorporate the results of business combinations using the purchase method. In the consolidated balance sheet, the acquiree's identifiable assets, liabilities and contingent liabilities are initially recognised at their fair values at the acquisition date. The results of acquired operations are included in the consolidated income statement from the date on which control is obtained.

Goodwill

Goodwill represents the excess of the cost of a business combination over the interest in the fair value of identifiable assets, liabilities and contingent liabilities acquired. Cost comprises the fair values of assets given, liabilities assumed and equity instruments issued, plus any direct costs of acquisition.

Goodwill is capitalised as an intangible asset with any impairment in carrying value being charged to the income statement.

Where the fair value of identifiable assets, liabilities and contingent liabilities exceed the fair value of consideration paid, the excess is credited in full to the income statement.

Impairment of non-financial assets

Impairment tests on goodwill and other intangible assets with indefinite useful economic lives are undertaken annually on 31 December. Other non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount (ie the higher of value in use and fair value less costs to sell), the asset is written down accordingly.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash-generating unit (ie the lowest group of assets in which the asset belongs for which there are separately identifiable cash flows). Goodwill is allocated on initial recognition to each of the group's cash-generating units that are expected to benefit from the synergies of the combination giving rise to the goodwill.

Impairment charges are included in the administrative expenses line item in the income statement, except to the extent they reverse gains previously recognised in the statement of changes in equity.

Associates

Where the Group has the power to participate in (but not control) the financial and operating policy decisions of another entity, it is classified as an associate. Associates are initially recognised in the consolidated balance sheet at cost. The Group's share of post-acquisition profits and losses is recognised in the consolidated income statement, except that losses in excess of the Group's interest in the associate are not recognised unless there is an obligation to make good those losses.

Profits and losses arising on transactions between the Group and its associates are recognised only to the extent of unrelated investors' interests in the associate. The investor's share in the associate's profits and losses resulting from these transactions is eliminated against the carrying value of the associate.

Any premium paid for an associate above the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities acquired is capitalised and included in the carrying amount of the associate and subject to impairment in the same way as goodwill arising on a business combination described above.

Foreign currency

Transactions entered into by group entities in a currency other than the currency of the primary economic environment in which it operates (the "functional currency") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the balance sheet date. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are similarly recognised immediately in the income statement, except for foreign currency borrowings qualifying as a hedge of a net investment in a foreign operation.

Financial Instruments*(i) Financial assets*

The Group classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired. The Group's accounting policy for each category is as follows:

Fair value through profit or loss: This category comprises the financial assets that have been acquired for the purpose of selling or repurchasing it in the short-term or if so designated by management. This category includes derivatives which are not qualified for hedge accounting. Debt securities and bank deposits with embedded derivatives for yield enhancement whose economic characteristics and risks are not closely related to the host securities and deposits are designated as financial assets at fair value through profit or loss. They are carried in the balance sheet at fair value with changes in fair value recognised in the income statement.

Loans and receivables: These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (trade and notes receivables), but also incorporate other types of contractual monetary asset. At each balance sheet date subsequent to initial recognition, they are carried at amortised cost using the effective interest rate method, less any identified impairment losses.

Held-to-maturity investments: These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. At each balance sheet date subsequent to initial recognition, held-to-maturity investment are measured at amortised cost using effective interest rate method, less any identified impairment losses.

Available-for-sale: Non-derivative financial assets not included in the above categories are classified as available-for-sale and comprise the Group's strategic investments in entities not qualifying as subsidiaries, associates or jointly controlled entities. They are carried at fair value with changes in fair value recognised directly in equity. Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognised in the income statement. For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition.

(ii) Financial liabilities

The Group classifies its financial liabilities into one of two categories, depending on the purpose for which the liabilities were incurred. The Group's accounting policy for each category is as follows:

Financial liabilities at fair value through profit or loss has two subcategories, including financial liabilities held for trading and those designated at fair value through profit or loss on initial recognition. At each balance sheet date subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

Other financial liabilities: Other financial liabilities include the following items:

- Trade and notes payables and other short-term monetary liabilities, which are recognised at amortised cost.
- Bank borrowings are initially recognised at the amount advanced net of any transaction costs directly attributable to the issue of the instrument. Such interest bearing liabilities are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the balance sheet. "Interest expense" in this context includes initial transaction costs and premium payable on redemption, as well as any interest or coupon payable while the liability is outstanding.

(iii) *Derecognition*

The Group derecognise a financial asset where the contractual rights to the future cash flows in relation to the investment expire or where the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with IAS 39.

Retirement benefits

Contributions to state-managed defined contribution pension schemes are charged to the income statement in the year to which they relate.

Externally acquired intangible assets

Externally acquired intangible assets are initially recognised at cost and subsequently amortised on a straight-line basis over their useful economic lives. The amortisation expense is included within the administrative expenses line in the income statement.

Internally generated intangible assets (research and development costs)

Expenditure on internally developed intangible assets is capitalised if it can be demonstrated that:

- it is technically feasible to develop the product for it to be sold;
- adequate resources are available to complete the development;
- there is an intention to complete and sell the product;
- the Group is able to sell the product;
- sale of the product will generate future economic benefits; and
- expenditure on the project can be measured reliably.

Capitalised development costs are amortised over the periods the Group expects to benefit from selling the products developed. The amortisation expense is included within the administrative expenses line in the income statement.

Development expenditure not satisfying the above criteria and expenditure on the research phase of internal projects are recognised in the income statement as incurred.

Property, plant and equipment

Items of property, plant and equipment are initially recognised at cost and subsequently carried at depreciated cost. As well as the purchase price, cost includes directly attributable costs and the estimated present value of any future costs of dismantling and removing items. The corresponding liability is recognised within provisions.

Depreciation is provided to write off the carrying value of items over their expected useful economic lives as follows:

Leasehold building	Over lease terms of 66 years
Leasehold improvements	3 years
Motor vehicles	5 years
Office furniture, fixtures and other equipment	5 years

Subsequent costs are included in the asset’s carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenances costs are charged to the income statement during the year in which they are incurred.

An asset is written down immediately to its recoverable amount if its carrying amount is higher than the asset’s estimated recoverable amount.

The gain or loss on disposal of property, plant and equipment is the difference between the net sale proceeds and the carrying amount of the relevant asset, and is recognised in the income statement.

Inventories

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Cost is determined on a first in, first out basis.

Contract work in progress

Contract work in progress comprises cost of raw materials, direct labour, other direct costs and related overheads incurred for telecommunication solutions contracts not yet completed at the balance sheet date.

Deferred taxation

Deferred tax assets and liabilities are recognised where the carrying amount of an asset or liability in the balance sheet differs to its tax base, except for differences arising on:

- the initial recognition of goodwill;
- goodwill for which amortisation is not tax deductible;
- the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting or taxable profit; and
- investments in subsidiaries where the Group is able to control the timing of the reversal of the difference and it is probable that the difference will not reverse in the foreseeable future.

Recognition of deferred tax assets is restricted to those instances where it is probable that taxable profit will be available against which the difference can be utilised.

The amount of the asset or liability is determined using tax rates that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the deferred tax liabilities/(assets) are settled/(recovered). Deferred tax balances are not discounted.

Deferred tax assets and liabilities are offset when the Group has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority on either:

- the same taxable group company; or
- different group entities which intend either to settle current tax assets and liabilities on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.

Provisions

Provisions are recognised for liabilities of uncertain timing or amount that have arisen as a result of past transactions and are discounted at a pre-tax rate reflecting current market assessments of the time value of money and the risks specific to the liability.

Operating leases

Where substantially all of the risks and rewards incidental to ownership of a leased asset are retained by the lessor (an “operating lease”), the total rentals payable under the lease are charged to the income statement on a straight-line basis over the lease term.

Government grants

Government grants received on capital expenditure are generally deducted in arriving at the carrying amount of the asset purchased. Grants for revenue expenditure are netted against the cost incurred by the Group.

Where retention of a government grant is dependent on the Group satisfying certain criteria, it is initially recognised as deferred income. When the criteria for retention has been satisfied, the deferred income balance is released to the income statement or netted against the asset purchased as appropriate.

Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the income statement as follows:

(i) *Income from provision of telecommunication solutions*

Income from provision of telecommunication solutions is recognised based on the stage of completion. The stage of completion is determined by making reference to testing criteria as certified by the customers.

(ii) *Trading of hardware and computer software*

Revenue is recognised when the significant risks and rewards of ownership of the goods are transferred to the customers, which generally coincides with the time when the goods are delivered and the title has passed to the customers.

(iii) *Interest income*

Interest income is recognised on a time proportion basis, taking into account the principal outstanding and the effective interest rate over the period to maturity, when it is determined that such income will accrue to the Group.

(iv) *Subsidy income*

Subsidy income is recognised upon cash receipt.

(v) *Dividend income*

Dividend income is recognised when the right to receive payment is established.

(vi) *Commission income*

Commission income is recognised when the goods on which the commission is calculated are delivered.

4. TURNOVER AND SEGMENT INFORMATION

Turnover comprises income from provision of telecommunication solutions, trading of hardware and computer software and provision of related service, net of value-added tax ("VAT"), business tax, rebates and discounts, during the year, and after eliminating intra-Group transactions.

Segment information

Segment information is presented by way of two segment formats: (a) on a primary segment reporting basis, by business segment; and (b) on a secondary segment reporting basis, by geographical segment.

(a) *Primary reporting segment – business segment*

The Group comprises the following main business segments:

(i) Provision of telecommunication solutions;

(ii) Trading of hardware and computer software; and

(iii) Other related service which represents the provision of telecommunication value-added services.

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FINANCIAL INFORMATION OF THE COMPANY

	Provision of telecommunication solutions		Trading of hardware and computer software		Other related service		Consolidated	
	2005	2004	2005	2004	2005	2004	2005	2004
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Segment turnover	36,185	71,272	59,925	97,289	22,098	17,078	118,208	185,639
Segment results	3,499	23,969	(5,967)	15,199	11,942	6,887	9,474	46,055
Unallocated revenue							10,899	1,351
Unallocated expenses							(45,459)	(27,471)
(Loss)/profit from operations							(25,086)	19,935
Share of results of associates	–	(909)	–	–	1,968	(649)	1,968	(1,558)
Finance costs							(4,427)	(4,610)
Interest income							257	363
(Loss)/profit before tax							(27,288)	14,130
Tax expense							(400)	(3,609)
(Loss)/profit for the year							(27,688)	10,521
Segment assets	55,962	77,109	36,956	86,570	9,671	7,675	102,589	171,354
Interests in associates	–	889	–	–	7,580	5,411	7,580	6,300
Unallocated assets							164,746	119,656
Total assets							274,915	297,310
Segment liabilities	19,689	18,498	34,157	33,032	2,569	3,203	56,415	54,733
Unallocated liabilities							85,763	83,280
Total liabilities							142,178	138,013
Other segment information:								
Capital expenditures	1,737	12,568	–	120	435	635	2,172	13,323
Depreciation and amortisation	7,379	5,743	–	581	633	213	8,012	6,537
Impairment loss on loans and receivables	821	–	1,507	–	2,980	–	5,308	–
Unallocated impairment loss on loans and receivables							4,441	–
Total impairment loss on loans and receivables							9,749	–
Write-down of inventories to net realisable value	–	–	3,629	–	–	–	3,629	–

(b) Secondary reporting segment – geographical segment

The Group operates within one geographical segment, the PRC. Accordingly, no geographical segment information is presented.

5. OTHER OPERATING INCOME

	Group	
	2005	2004
	RMB'000	RMB'000
Subsidy income		
Net VAT refund (<i>Note</i>)	4,210	620
Commission income	352	605
Gain on disposal of property, plant and equipment	2	–
Gain on disposal of an associate	–	100
Gain on partial disposal of subsidiaries	251	–
Gain on disposal of certain business (<i>Note 30</i>)	5,014	–
Consultancy income	800	–
Others	270	26
	<u>10,899</u>	<u>1,351</u>

Note: Pursuant to Guo Fa [2000] No. 18 issued by the State Council, the Company is subject to VAT at a rate of 17% on sales of self-developed software, and is granted VAT refund of the amount of actual tax burden exceeding 3% on sales of self-developed software. VAT refund is recorded as income upon receipt.

6. (LOSS)/PROFIT FROM OPERATIONS

This has been arrived at after charging:

	Group	
	2005	2004
	RMB'000	RMB'000
Amortisation of intangible assets	5,612	4,245
Depreciation of property, plant and equipment	2,400	2,292
Loss on disposal of property, plant and equipment	–	24
Impairment loss on loans and receivables	9,749	–
Write-down of inventories to net realisable value (included in costs of sales)	3,629	–
Research and development costs	2,242	330
Operating lease expense for office premises	1,462	1,749
Cost of inventories recognised as an expense	97,241	129,517
Auditors' remuneration	380	322
Net foreign exchange losses	3	–
Staff costs (<i>Note 7</i>)	<u>13,003</u>	<u>9,590</u>

7. STAFF COSTS

	Group	
	2005	2004
	RMB'000	RMB'000
Staff costs (excluding directors and supervisors) comprise:		
Salaries and other benefits	10,307	7,285
Retirement benefits scheme contributions	<u>2,696</u>	<u>2,305</u>
	<u>13,003</u>	<u>9,590</u>

8. REMUNERATIONS OF DIRECTORS AND SUPERVISORS

Details of the emoluments of the directors and supervisors of the Group were as follows:

	Group	
	2005	2004
	RMB'000	RMB'000
Fees	20	20
Salaries and other benefits	625	695
Retirement benefits scheme contributions	12	12
	657	727

Details of remunerations of directors and supervisors for the year ended 31 December 2005 are as follows:

	Fees	Salaries and other benefits	Retirement benefits scheme contributions	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors:				
Mr. Chen Ping	—	250	—	250
Mr. Zhao Jian	—	10	—	10
Mr. Xue Shi Cheng	20	180	—	200
Mr. Chen Chun	—	20	—	20
Mr. Shi Lie	—	10	—	10
Mr. Hu Yang Jun	—	20	—	20
Ms. Pan Lichun	—	10	—	10
Independent non-executive directors:				
Mr. Cai Xiao Fu	—	10	—	10
Mr. Zhang De Xin	—	10	—	10
Mr. Gu Yu Lin	—	10	—	10
Supervisors:				
Mr. Fu Liang Yuan	—	3	—	3
Mr. Huo Zhong Hui	—	50	6	56
Ms. Liu Cui Yu	—	36	6	42
Mr. Feng Pei Xian	—	3	—	3
Mr. Wang Hui	—	3	—	3
Total	20	625	12	657

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Details of remuneration of directors and supervisors remuneration for the year ended 31 December 2004 are as follows:

	Fees <i>RMB'000</i>	Salaries and other benefits <i>RMB'000</i>	Retirement benefits scheme contributions <i>RMB'000</i>	Total <i>RMB'000</i>
Executive directors:				
Mr. Chen Ping	–	250	–	250
Mr. Zhao Jian	–	20	–	20
Mr. Xue Shi Cheng	20	180	–	200
Mr. Chen Chun	–	40	–	40
Mr. Hu Yang Jun	–	80	–	80
Independent non-executive directors:				
Mr. Cai Xiao Fu	–	10	–	10
Mr. Zhang De Xin	–	10	–	10
Mr. Gu Yu Lin	–	10	–	10
Supervisors:				
Mr. Fu Liang Yuan	–	3	–	3
Mr. Huo Zhong Hui	–	50	6	56
Ms. Liu Cui Yu	–	36	6	42
Mr. Feng Pei Xian	–	3	–	3
Mr. Wang Hui	–	3	–	3
Total	20	695	12	727

No directors or supervisors waived any emoluments for the year.

During the year, no emoluments were paid by the Group to any of the directors as an inducement to join, or upon joining the Group or as compensation for loss of office.

9. FIVE HIGHEST PAID INDIVIDUALS

Details of the remuneration of the five highest paid individuals (including directors, supervisors and employees) were as follows:

	Group	
	2005 <i>RMB'000</i>	2004 <i>RMB'000</i>
Fees	20	20
Salaries and other benefits	730	780
Retirement benefits scheme contributions	36	12
	786	812

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The five individuals whose emoluments were the highest in the Group (including directors, supervisors and employees) were as follows:

	Number	
	2005	2004
Directors	2	2
Employees	3	3
	<u>5</u>	<u>5</u>

The emoluments of each of these individuals for the year were less than RMB1,000,000.

During the year, no emoluments were paid by the Group to the five highest paid individuals as an inducement to joining the Group, or as compensation for loss of office.

10. FINANCE COSTS

	Group	
	2005	2004
	RMB'000	RMB'000
Interest expenses on bank borrowings wholly repayable within five years	4,294	4,562
Others	133	48
	<u>4,427</u>	<u>4,610</u>

11. TAX EXPENSE

	Group	
	2005	2004
	RMB'000	RMB'000
Current tax expense		
PRC Enterprises Income Taxes (“EIT”) on profit for the year	1,389	4,408
Adjustment for overprovision in prior years	(989)	(799)
	<u>400</u>	<u>3,609</u>

The Company and certain of its subsidiaries were subject to EIT at rate of 15% (2004: 15%) as they were classified as Advanced and New Technology Enterprise. The remaining subsidiaries were taxed at the statutory rate of 33% of their respective assessable income for the year ended 31 December 2005.

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The tax expenses for the year can be reconciled to the (loss)/profit per the consolidated income statement is as follows:

	Group	
	2005	2004
	RMB'000	RMB'000
(Loss)/profit before tax	(27,288)	14,130
Tax calculated at the domestic income tax rate of 15% (2004: 15%)	(4,093)	2,120
Tax effect of expenses not deductible and income not taxable for tax purpose	2,707	940
Tax effect of tax losses not recognised	3,248	716
Effect of different tax rates of certain subsidiaries	390	632
Tax effect of tax losses utilised	(863)	–
Overprovision in respect of prior years	(989)	(799)
Tax expense	400	3,609

12. DIVIDEND

No dividend was paid or proposed during 2005, nor has any dividend been proposed since the balance sheet date (2004: Nil).

13. (LOSS)/EARNINGS PER SHARE

Basic (loss)/earnings per share is calculated by dividing the net (loss)/profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	Group	
	2005	2004
Net (loss)/profit attributable to equity holders of the Company (RMB'000)	(28,348)	10,296
Weighted average number of ordinary shares in issue (thousands)	339,577	339,577
Basic (loss)/earnings per share (RMB)	(0.083)	0.030

No diluted (loss)/earnings per share has been presented for both years as there were no potential ordinary shares outstanding during the year.

14. PROPERTY, PLANT AND EQUIPMENT

Group

	Leasehold land and building <i>RMB'000</i>	Leasehold improvements <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Office furniture, fixtures and other equipment <i>RMB'000</i>	Total <i>RMB'000</i>
Cost					
At 1 January 2005	–	3,474	2,574	8,585	14,633
Additions	1,492	–	–	680	2,172
Acquired through acquisition of a subsidiary	–	–	58	310	368
Disposed through disposals of certain business	–	–	–	(253)	(253)
Disposals	–	–	–	(8)	(8)
At 31 December 2005	1,492	3,474	2,632	9,314	16,912
Depreciation					
At 1 January 2005	–	2,575	880	3,572	7,027
Provided for the year	–	421	370	1,609	2,400
Acquired through acquisition of a subsidiary	–	–	7	80	87
Eliminated on disposals of certain business	–	–	–	(117)	(117)
Eliminated on disposals	–	–	–	(4)	(4)
At 31 December 2005	–	2,996	1,257	5,140	9,393
Net book value					
At 31 December 2005	1,492	478	1,375	4,174	7,519

The leasehold land and building is located in the PRC and held under medium-term lease.

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Group

	Leasehold improvements <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Office furniture, fixtures and other equipment <i>RMB'000</i>	Total <i>RMB'000</i>
Cost				
At 1 January 2004	2,698	2,458	7,799	12,955
Additions	776	299	888	1,963
Disposals	—	(183)	(102)	(285)
At 31 December 2004	3,474	2,574	8,585	14,633
Depreciation				
At 1 January 2004	2,131	694	2,019	4,844
Provided for the year	444	263	1,585	2,292
Eliminated on disposals	—	(77)	(32)	(109)
At 31 December 2004	2,575	880	3,572	7,027
Net book value				
At 31 December 2004	899	1,694	5,013	7,606

Company

	Leasehold land and building <i>RMB'000</i>	Leasehold improvements <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Office furniture, fixtures and other equipment <i>RMB'000</i>	Total <i>RMB'000</i>
Cost					
At 1 January 2005	—	3,465	1,955	4,788	10,208
Additions	1,492	—	—	147	1,639
Disposed through disposals of certain business	—	—	—	(253)	(253)
At 31 December 2005	1,492	3,465	1,955	4,682	11,594
Depreciation					
At 1 January 2005	—	2,566	729	2,284	5,579
Provided for the year	—	421	293	823	1,537
Eliminated on disposals of certain business	—	—	—	(117)	(117)
At 31 December 2005	—	2,987	1,022	2,990	6,999
Net book value					
At 31 December 2005	1,492	478	933	1,692	4,595

The leasehold land and building is located in the PRC and held under medium-term lease.

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Company

	Leasehold improvements <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Office furniture, fixtures and other equipment <i>RMB'000</i>	Total <i>RMB'000</i>
Cost				
At 1 January 2004	2,689	2,138	4,458	9,285
Additions	776	–	432	1,208
Disposals	–	(183)	(102)	(285)
At 31 December 2004	3,465	1,955	4,788	10,208
Depreciation				
At 1 January 2004	2,122	611	1,457	4,190
Provided for the year	444	195	859	1,498
Eliminated on disposals	–	(77)	(32)	(109)
At 31 December 2004	2,566	729	2,284	5,579
Net book value				
At 31 December 2004	899	1,226	2,504	4,629

15. INTANGIBLE ASSETS

Group

	Goodwill <i>RMB'000</i>	Computer software <i>RMB'000</i>	Self- developed software <i>RMB'000</i>	Total <i>RMB'000</i>
Cost				
At 1 January 2005	246	9,274	11,360	20,880
Elimination of accumulated amortisation upon application of IFRS 3 (<i>Note 2</i>)	(101)	–	–	(101)
Additions (<i>Note 29</i>)	368	–	–	368
Disposals	(21)	–	–	(21)
At 31 December 2005	492	9,274	11,360	21,126
Amortisation				
At 1 January 2005	101	6,991	1,893	8,985
Elimination of accumulated amortisation upon application of IFRS 3 (<i>Note 2</i>)	(101)	–	–	(101)
Provided for the year	–	1,825	3,787	5,612
At 31 December 2005	–	8,816	5,680	14,496
Net book value				
At 31 December 2005	492	458	5,680	6,630

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Group

	Goodwill <i>RMB'000</i>	Computer software <i>RMB'000</i>	Self- developed software <i>RMB'000</i>	Total <i>RMB'000</i>
Cost				
At 1 January 2004	246	9,274	–	9,520
Additions	–	–	11,360	11,360
At 31 December 2004	246	9,274	11,360	20,880
Amortisation				
At 1 January 2004	52	4,688	–	4,740
Provided for the year	49	2,303	1,893	4,245
At 31 December 2004	101	6,991	1,893	8,985
Net book value				
At 31 December 2004	145	2,283	9,467	11,895

Company

	Goodwill <i>RMB'000</i>	Computer software <i>RMB'000</i>	Self- developed software <i>RMB'000</i>	Total <i>RMB'000</i>
Cost				
At 1 January 2005	246	9,274	11,360	20,880
Elimination of accumulated amortisation upon application of IFRS 3 (<i>Note 2</i>)	(101)	–	–	(101)
Disposals	(21)	–	–	(21)
At 31 December 2005	124	9,274	11,360	20,758
Amortisation				
At 1 January 2005	101	6,991	1,893	8,985
Elimination of accumulated amortisation upon application of IFRS 3 (<i>Note 2</i>)	(101)	–	–	(101)
Provided for the year	–	1,825	3,787	5,612
At 31 December 2005	–	8,816	5,680	14,496
Net book value				
At 31 December 2005	124	458	5,680	6,262

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Company

	Goodwill <i>RMB'000</i>	Computer software <i>RMB'000</i>	Self- developed software <i>RMB'000</i>	Total <i>RMB'000</i>
Cost				
At 1 January 2004	246	9,274	–	9,520
Additions	–	–	11,360	11,360
At 31 December 2004	246	9,274	11,360	20,880
Amortisation				
At 1 January 2004	52	4,688	–	4,740
Provided for the year	49	2,303	1,893	4,245
At 31 December 2004	101	6,991	1,893	8,985
Net book value				
At 31 December 2004	145	2,283	9,467	11,895

Self-developed software are internally generated. Computer software was acquired from third parties. Goodwill is created through business combinations.

The above intangible assets have definite useful lives. Such intangible assets, apart from goodwill, are amortised on a straight-line basis over 3 years.

16. INVESTMENTS IN SUBSIDIARIES

	Company	
	2005	2004
	<i>RMB'000</i>	<i>RMB'000</i>
		(Restated)
Unlisted investments, at cost	36,895	37,959

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The subsidiaries of the Company, all of which have been included in these consolidated financial statements, are as follows:

Name	Place of registration/ operations	Attributable equity interest of the Company		Paid-in capital	Principal activities
		Direct	Indirect		
Chengdu Lande E & I Technology Company Limited 成都蘭德電子信息技術有限公司	PRC	55%	–	RMB1,000,000	Provision of telecommunication related services
Hangzhou Trust Communication Service Company Limited 杭州群思特通信服務有限公司	PRC	55%	–	RMB1,000,000	Provision of telecommunication related services
Zhejiang Lande Xinyi Information Technology Company Limited 浙江蘭德新易信息技術有限公司	PRC	70%	–	RMB5,000,000	Provision of telecommunication solutions and trading of hardware and computer software
Guangzhou Landi Electronics Information Technology Company Limited 廣州市蘭笛電子信息技術有限公司	PRC	67%	–	RMB1,500,000	Provision of telecommunication solutions and other related services, and trading of hardware and computer software
Zhejiang Sichuang Information Technology Company Limited 浙江思創信息技術有限公司	PRC	90%	–	RMB30,000,000	Trading of hardware and computer software and provision of telecommunication related services
Hefei Lande Tong Ling Technology Limited 合肥蘭德通靈科技有限公司	PRC	75%	–	RMB2,000,000	Provision of telecommunication related services
Zhejiang Lande Congheng Network Service Company Limited 浙江蘭德縱橫網絡技術有限公司	PRC	60%	–	RMB5,000,000	Provision of telecommunication solutions and other related services, and trading of hardware and computer software
Fuzhou Truease Digital Scitech and Technology Company Limited (“Fuzhou Truease”) 福州真易數碼科技有限公司	PRC	–	63%	RMB1,000,000	Provision of telecommunication related services

Note:

All subsidiaries are limited liability company.

None of the subsidiaries had any debt securities subsisting at the end of the year or at any time during the year.

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17. INTERESTS IN ASSOCIATES

	Group		Company	
	2005	2004	2005	2004
	RMB'000	RMB'000	RMB'000	RMB'000
				(Restated)
Unlisted investments, at cost	8,400	8,400	4,400	4,400
Share of post-acquisition losses, net of dividends received	(820)	(2,100)	–	–
	7,580	6,300	4,400	4,400

Included in the cost of investments in associates is goodwill of RMB2,498,000 (2004: RMB2,498,000) arising on acquisition of an associate in prior years. Until 31 December 2004, goodwill had been amortised over 5 years.

The following entities meet the definition of an associate and have been equity accounted for in the consolidated financial statements:

Name	Place of registration/ operation	Attributable equity interest of the Group	Paid-in capital	Principal activities
Guangzhou Lande Information and Technology Company Limited 廣東蘭德科技發展有限公司	PRC	40%	RMB5,000,000	Development of computer applications and trading of computer hardware
Shanghai Haigang Communication Technology Company Limited 上海海港通信技術有限公司	PRC	24%	RMB10,000,000	Trading of electronic products, computer hardware and telecommunication network products and other related services
Hangzhou Yintong Digital Communication Technology Company Limited 杭州銀通數碼信息技術有限公司	PRC	39.6%	RMB3,000,000	Development of computer applications and trading of computer hardware

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The summarised financial information in respect of the Group’s associates is set out below:

	Group	
	2005	2004
	RMB'000	RMB'000
Total assets	21,933	18,998
Total liabilities	(4,909)	(4,639)
Net assets	17,024	14,359
Group’s share of net assets of associates	5,082	3,802
Revenue	15,671	6,166
Profit/(loss) for the year	4,771	(3,540)
Group’s share of results of associates for the year	1,968	(1,558)

18. INVENTORIES

	Group		Company	
	2005	2004	2005	2004
	RMB'000	RMB'000	RMB'000	RMB'000
Computer software and hardware	2,196	10,062	–	2,297

19. TRADE AND NOTES RECEIVABLES

An aging analysis of the trade and notes receivables as at the balance sheet date, based on the date of recognition of the sale, is as follows:

	Group		Company	
	2005	2004	2005	2004
	RMB'000	RMB'000	RMB'000	RMB'000
Less than one year	51,721	88,045	41,504	76,116
Over one year but less than two years	15,731	13,467	14,419	10,434
Over two years but less than three years	3,360	2,376	3,100	2,359
Over three years	4,150	5,858	4,133	5,858
	74,962	109,746	63,156	94,767
Less: Accumulated impairment	(8,791)	(6,406)	(8,791)	(6,406)
	66,171	103,340	54,365	88,361

There were no specific credit terms granted to the customers.

20. PREPAYMENTS AND OTHER RECEIVABLES

	Group		Company	
	2005	2004	2005	2004
	RMB'000	RMB'000	RMB'000	RMB'000
Prepayment to suppliers	7,698	22,013	12,687	11,325
Due from third parties	39,995	48,336	32,259	30,039
Due from related parties	34,148	10,329	17,847	7,070
Due from minority shareholders	11,522	3,379	5,798	3,000
Advances to employees	3,462	2,517	983	–
Others	696	4,043	300	3,859
	<u>97,521</u>	<u>90,617</u>	<u>69,874</u>	<u>55,293</u>
Less: Accumulated impairment for:				
Prepayment to suppliers	(2,923)	–	–	–
Due from third parties	(1,901)	–	(1,901)	–
Due from related parties	(2,540)	–	(2,540)	–
	<u>(7,364)</u>	<u>–</u>	<u>(4,441)</u>	<u>–</u>
	<u>90,157</u>	<u>90,617</u>	<u>65,433</u>	<u>55,293</u>

The amounts due from third parties, related parties and minority shareholders are unsecured, interest-free and repayable on demand.

21. PLEDGED BANK DEPOSITS

	Group		Company	
	2005	2004	2005	2004
	RMB'000	RMB'000	RMB'000	RMB'000
Pledged bank deposits	<u>19,848</u>	<u>11,020</u>	<u>19,848</u>	<u>5,020</u>

At 31 December 2005, the Group's pledged bank deposits of RMB18,245,000 (2004: RMB5,020,000) and RMB1,603,000 (2004: Nil) were pledged as security for the Group's notes payables facilities and the Group's contracts for provision of telecommunication solutions respectively. At 31 December 2004, RMB6,000,000 was also pledged to bank for granting banking facilities to a related company, Hangzhou Yixun Information Technology Company Limited (杭州奕訊信息技術有限公司), in which Mr. Chen Wei, a senior management of the Company, had beneficial interests.

At 31 December 2005, the Company's pledged bank deposits of RMB18,245,000 (2004: RMB5,020,000) and RMB1,603,000 (2004: Nil) were pledged as security for the Company's notes payables facilities and the Company's contracts for provision of telecommunication solutions respectively.

22. TRADE AND NOTES PAYABLES

An aging analysis of the trade and notes payables as at the balance sheet date, based on the receipt of goods purchased, is as follows:

	Group		Company	
	2005	2004	2005	2004
	RMB'000	RMB'000	RMB'000	RMB'000
Less than one year	41,761	44,282	39,387	34,992
Over one year but less than two years	3,690	390	3,338	234
Over two years but less than three years	168	–	105	–
Over three years	24	–	24	–
	<u>45,643</u>	<u>44,672</u>	<u>42,854</u>	<u>35,226</u>

23. SHORT-TERM BORROWINGS

	Group		Company	
	2005	2004	2005	2004
	RMB'000	RMB'000	RMB'000	RMB'000
Unsecured bank loans repayable within one year	<u>74,000</u>	<u>66,500</u>	<u>71,000</u>	<u>66,500</u>

The bank loans are denominated in RMB.

The bank loans include approximately RMB58,000,000 (2004: RMB66,500,000) fixed-rate borrowings which carry interest ranging from 6.1% to 6.7% (2004: 5.3% to 5.9%) per annum. The remaining bank loans are variable-rate borrowings which carry interest ranging from 4.6% to 5.9% (2004: Nil) per annum.

	Group and Company	
	2005	2004
	RMB'000	RMB'000
The bank loans are guaranteed by:		
Chen Ping	25,000	–
Chen Ping and his wife, Yang Jie, jointly	13,000	–
Zhejiang University Innovation Information Holdings Company Limited (浙江浙大網新信息控股有限公司) (Note (a))	33,000	20,000
Tong He Investment Company Limited (通和置業投資有限公司) (Note (b))	<u>–</u>	<u>20,000</u>
	<u>71,000</u>	<u>40,000</u>

Notes:

- (a) This is a substantial shareholder of the Company during the year ended 31 December 2005.
- (b) This is a subsidiary of a corporate shareholder of the Company during the year ended 31 December 2004.

24. FINANCIAL INSTRUMENTS – RISK MANAGEMENT

The Group is exposed through its operations to one or more of the following financial risks:

- Credit risk
- Currency risk
- Interest rate risk
- Liquidity risk
- Fair values of financial assets and financial liabilities

Policy for managing these risks is set by the directors of the Group. The policy for each of the above risks is described in more detail below.

(a) Credit risks

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 December 2005 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. The Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group's concentration of credit risk by geographical locations is mainly in the PRC. The Group has no significant concentration of credit risk by any single debtor, with exposure spread over a number of counterparties and customers.

Bank balances are placed in various authorised institutions and directors of the Company consider the credit risk for such is minimal.

(b) Currency risk

The Group's principal businesses are conducted and recorded in RMB. Since the impact of foreign exchange exposure is minimal, no hedging against foreign currency exposure has been carried out by the management.

(c) Interest rate risk

The Group's exposure to interest rate risk through the impact of rate changes on interest bearing financial assets and liabilities. Interest bearing financial assets are mainly balances with banks and pledged bank deposits which are all short term in nature. Interest bearing financial liabilities are mainly bank loans with fixed rates and repayable within one year. Therefore, any future variations in interest rate will not have a significant impact on the results of the Group.

(d) Liquidity risk

Internally generated cash flow and bank loans are the general sources of funds to finance the operations of the Group. Majority of the Group's banking facilities are subject to fixed interests rate and are renewable annually. The Group liquidity risk management includes making available standby banking facilities and diversifying the funding sources. The Group regularly reviews its major funding positions to ensure it has adequate financial resources in meeting its financial obligations.

(e) Fair values of financial assets and financial liabilities

The fair values of financial assets and financial liabilities reported in the balance sheet of the Group and the Company approximate their carrying amounts.

25. SHARE CAPITAL

At 31 December 2005, the details of the Company's share capital were as follows:

	Number of shares		Amount	
	2005	2004	2005	2004
	(in thousands)		RMB'000	RMB'000
Registered, issued and fully paid:				
Domestic shares with par value of RMB0.10 each held by promoters	227,452	227,452	22,745	22,745
Overseas public shares ("H" shares) with par value of RMB0.10 each	112,125	112,125	11,213	11,213
	<u>339,577</u>	<u>339,577</u>	<u>33,958</u>	<u>33,958</u>

26. RESERVES

Company

	Share premium	Statutory surplus reserve	Statutory public welfare reserve	Retained earnings	Proposed final dividends	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
		(Note (a))	(Note (b))	(Restated)		
At 1 January 2004						
– as originally stated	71,988	4,118	2,059	27,110	3,396	108,671
– change in accounting policy with respect to investments in subsidiaries and associates (IAS 27 & 28)	–	–	–	(7,741)	–	(7,741)
– as restated	71,988	4,118	2,059	19,369	3,396	100,930
Profit for the year	–	–	–	13,199	–	13,199
Dividends paid	–	–	–	–	(3,396)	(3,396)
Transfer of retained earnings	–	1,030	514	(1,544)	–	–
At 31 December 2004	71,988	5,148	2,573	31,024	–	110,733
Loss for the year	–	–	–	(27,688)	–	(27,688)
Transfer of retained earnings	–	213	–	(213)	–	–
At 31 December 2005	<u>71,988</u>	<u>5,361</u>	<u>2,573</u>	<u>3,123</u>	<u>–</u>	<u>83,045</u>

Notes:

(a) Statutory surplus reserve

In accordance with the Company Law in the PRC and the articles of association of the Company and its subsidiaries, the Company and its subsidiaries are required to appropriate 10% of their annual statutory net profit (after offsetting any prior years' losses) to the statutory surplus reserve.

When the balance of the statutory surplus reserve reaches 50% of the paid-in capital/share capital, any further appropriation is optional. The statutory surplus reserve can be utilised to offset prior years' losses, if any, or to increase capital after properly approved. However, except for offset prior years' losses, such statutory surplus reserve must be maintained at a minimum of 25% of paid-in capital/share capital after such usage.

For the year ended 31 December 2005, the directors of the Company have recommended that 10% (2004: 10%) of the profit for the year based on the management accounts prepared in accordance with PRC accounting regulations be appropriated to statutory surplus reserve.

(b) Statutory public welfare reserve

In previous years, in accordance with the Company Law in the PRC and the articles of association of the Company and its subsidiaries, the Company and its subsidiaries are also required to appropriate 5% -10% of their annual statutory net profit (after offsetting any prior years' losses) to a statutory public welfare reserve to be utilised for employees' common welfare.

During the year ended 31 December 2005, the Company Law in the PRC waived the requirement of appropriation to this reserve and hence no appropriation of such reserve was made by the Group for the year.

For the year ended 31 December 2004, the directors of the Company have recommended that 5% of the profit for the year based on the management accounts prepared in accordance with PRC accounting regulations be appropriated to this reserve.

The statutory public welfare reserve can only be utilised on capital items for the collective benefits of the Company and its subsidiaries' employees such as construction of dormitories, canteen and other staff welfare facilities, with the title of these capital items remain with the Company and its subsidiaries. This fund is non-distributable other than in liquidation.

27. UNPROVIDED DEFERRED TAX

The Group has unused tax losses and deductible temporary difference amounted to RMB36,667,000 (2004: RMB4,993,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the unused tax losses and deductible temporary difference as it is not probable that taxable profit will be available against which the tax losses and deductible temporary differences can be utilised. The unrecognised tax losses will expire in five year's time.

The Company has unused tax losses and deductible temporary difference amounted to RMB26,087,000 (2004: Nil) available for offset against future profits. No deferred tax asset has been recognised in respect of the unused tax losses and deductible temporary difference as it is not probable that taxable profit will be available against which the tax losses and deductible temporary differences can be utilised. The unrecognised tax losses will expire in five year's time.

28. AMOUNTS DUE FROM (TO) SUBSIDIARIES AND ASSOCIATES

The amounts are unsecured, interest-free and repayable on demand.

29. ACQUISITION OF A SUBSIDIARY

On 12 December 2005, the Group acquired 63% of the paid-in capital of Fuzhou Truease whose principal activity is the provision of telecommunication related services.

Details of the fair value of identifiable assets and liabilities acquired, purchase consideration and goodwill are as follows:

	2005	2004
	<i>RMB'000</i>	<i>RMB'000</i>
Fair value of assets acquired		
Property, plant and equipment	281	—
Trade receivables	40	—
Prepayments and other receivables	78	—
Bank balances and cash	276	—
Other payables and accruals	(201)	—
Minority interests	474	—
	(142)	—
Goodwill (<i>Note 15</i>)	332	—
	368	—
Total consideration is satisfied by cash	700	—

	2005 RMB'000	2004 RMB'000
Fair value of assets acquired		
Net cash outflow arising on acquisition:		
Cash consideration	(700)	—
Bank balances and cash acquired	276	—
	<u> </u>	<u> </u>
Net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary	(424)	—
	<u> </u>	<u> </u>

The goodwill arising on the acquisition of Fuzhou Truease is attributable to the anticipated profitability of the subsidiary arising from the provision of telecommunication related services.

Fuzhou Truease contributed RMB178,000 to the Group's turnover and loss of RMB49,000 to the Group's loss for the year between the date of acquisition and the balance sheet date.

If the acquisition had been completed in 1 January 2005, total Group turnover for the year would have been RMB119,564,000, and loss for the year would have been RMB27,880,000. The proforma information is for illustrative purposes only and is not necessarily an indication of turnover and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2005, nor is it intended to be a projection of future results.

30. DISPOSAL OF CERTAIN BUSINESS

During the year, the Group disposed of certain divisions in the business of provision of telecommunication solutions and telecommunication value-added services. The relevant assets disposed at the date of disposal were as follows:

	2005 RMB'000	2004 RMB'000
Assets disposed of:		
Property, plant and equipment	136	—
Gain on disposal of certain business (<i>Note 5</i>)	5,014	—
	<u> </u>	<u> </u>
Total consideration	5,150	—
	<u> </u>	<u> </u>
Satisfied by:		
Cash consideration received	3,500	—
Cash consideration receivable included in prepayments and other receivables	1,650	—
	<u> </u>	<u> </u>
	5,150	—
	<u> </u>	<u> </u>

31. CONTINGENT LIABILITIES

The Group and the Company did not have any significant contingent liabilities at 31 December 2005.

32. OPERATING LEASE ARRANGEMENTS

The Group leases its office premises under operating lease arrangements, with leases negotiated for terms ranging from one to three years.

The total future minimum lease payments are due as follows:

	Group		Company	
	2005	2004	2005	2004
	RMB'000	RMB'000	RMB'000	RMB'000
Not later than one year	1,384	839	1,081	737
Later than one year and not later than five years	1,629	–	1,601	–
	<u>3,013</u>	<u>839</u>	<u>2,682</u>	<u>737</u>

33. RELATED AND CONNECTED PARTY TRANSACTIONS

During the year, the Group entered into the following transactions with related and connected parties:

	2005	2004
	RMB'000	RMB'000
Income from provision of telecommunication related services to a related company (Note)	1,984	–
Guarantee given by Chen Ping in respect of a bank loan granted to the Group (Note 23)	25,000	–
Guarantee jointly given by Chen Ping and Yang Jie in respect of a bank loan granted to the Group (Note 23)	13,000	–
Corporate guarantee given by Zhejiang University Innovation Information Holdings Company Limited in respect of a bank loan granted to the Group (Note 23)	33,000	20,000
Corporate guarantee given by Tong He investment Company Limited in respect of a bank loan granted to the Group (Note 23)	–	20,000
	<u>–</u>	<u>20,000</u>

The balances with related parties are set out on the balance sheets of the Group and the Company and in the respective notes.

Note:

The related company is a controlling shareholder of a subsidiary of the Company.

Compensation of key management personnel

The remuneration of directors, supervisors and other members of key management during the year was as follows:

	Group and Company	
	2005	2004
	RMB'000	RMB'000
Short-term benefits	1,145	1,165
Post employment benefits	60	48
	<u>1,205</u>	<u>1,213</u>

34. RETIREMENT BENEFIT SCHEMES

The employees of the Group are required to participate in a central pension scheme operated by the local municipal governments. The companies in the Group are required to contribute 20% of its payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

The total cost charged to income statement of approximately RMB2,708,000 (2004: RMB2,317,000) represents contributions payable to these schemes by the Group in respect of the current accounting period.

35. GOVERNMENT GRANTS

Government grants of RMB2,484,000 (2004: RMB1,790,000) have been received in the current year towards certain research and development activities. The amounts have been deducted in reporting research and development costs for the year.

36. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies which are described in note 3, management has made the following judgments that have significant effect on the amounts recognised in the financial statements. The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are also discussed below.

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value.

Impairment loss on loans and receivables

The policy for impairment of loans and receivables of the Group is based on the evaluation of collectability and aging analysis of the loans and receivables and on management's judgment. A considerable amount of judgment is required in assessing the ultimate realisation of these loans and receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional impairment may be required.

Write-down of inventories to net realisable value

The management of the Group reviews an aging analysis at each balance sheet date, and makes provision for obsolete and slow-moving inventory items identified. The management estimates the net realisable value for such inventories based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review at each balance sheet date and makes provision for obsolete items.

37. EVENTS AFTER THE BALANCE SHEET DATE

On 28 February 2006, the Group entered into an agreement to dispose of its interest in an associate with carrying amount of RMB3,925,000 at 31 December 2005 to an independent third party, at a consideration of RMB6,160,000. Gain on disposal of the associate amounted to RMB2,235,000.

3. STATEMENT OF INDEBTEDNESS

Borrowings

As at 30 June 2006, being the latest practicable date for the purpose of this indebtedness statement, the Group had total outstanding borrowings of approximately RMB107.6 million, comprising bank loans and notes payable of approximately RMB93.8 million and RMB13.8 million respectively.

Security

As at 30 June 2006, (i) the Group's bank loans of approximately RMB89.0 million were unsecured and guaranteed by Mr. Chen Ping, the Chairman of the Company and an executive Director, his wife and Zhejiang University Innovation Information Holdings Company Limited; and (ii) the Group's bank loans and notes payable in the aggregate of approximately RMB18.6 million were secured by the Group's pledged bank deposits of RMB14.6 million.

Mortgage and charges

As at 30 June 2006, the Group's pledged bank deposit of RMB14.6 million were pledged as security for the Company's notes payables facilities.

Guarantees and contingent liabilities

As at 30 June 2006, the Group had no outstanding guarantees and no contingent liabilities.

Changes in indebtedness of the Group since 30 June 2006

There was no significant change in the indebtedness of the Group since 30 June 2006.

4. DISCLAIMER

Save as disclosed above, the Group did not have, as at 30 June 2006, any outstanding loan capital issued and outstanding or agreed to be issued, bank overdrafts, charges or debentures, mortgages, loans, or other similar indebtedness or any finance lease commitments, hire purchase commitments, liabilities under acceptances (other than normal trade bills), acceptance credits or any guarantees, other material contingent liabilities or other capital commitments.

5. WORKING CAPITAL

Taking into account the present internal resources and the available banking facilities of the Group, the Directors are of the opinion that the Group has adequate working capital for its present requirements.

6. MATERIAL ADVERSE CHANGES SINCE 31 DECEMBER 2005

The Directors are not aware of any material adverse change in the financial and trading position of the Company since 31 December 2005, being the date to which the latest published audited financial statements of the Company were made up.

7. FINANCIAL AND TRADING PROSPECTS OF THE COMPANY**(i) Orders in hand/Sales contract status**

The Group's orders in hand include the management support system capacity enlargement projects as well as the e-government projects in a number of provinces. Being one of the second phase entrepreneurial firms for management support system selected by China Unicom, the Company is now engaged in the testing point item (second phase) located in Chongqing China Unicom. Emphases are put on the enterprises gateway and mobile gateway. Whereas family-school link has been implemented in 150 schools and the implementation is under continuation. On the other hand, positioning business will continue the installation of the inner river ship positioning facilities. Promotions on fixed line phone value-added business has already commenced. Industrial and commercial information service project has been implemented, and has achieved a record of user groups, which bear a remarkable trend of growth.

(ii) Prospects of new business and new products

Regarding value-added services business, the Group will continue to strengthen its product development and promotion of existing products like SMS, voice message, secretarial station, WAP, etc. On the education side, co-operating with related web sites in launching related information service product will continue, while more products of knowledgeable-expert correlated integrated positioning service system will be launched. On the other hand, product development concerning medical and health will be conducted as a faster pace with faster development geared towards Holter mobile terminal. In addition, product development for missing calls notification for mobile phones will be continued with greater pace.

Concerning aspect of applied service, the Group will develop new function embedded in entrepreneurial informationized platform products, escalating system quality, push ahead testing of Java version available for entrepreneurial informationized platform. Also, development will be continued in products correlating to telecommunication business operators' decision system and warning alert system.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:

- (a) the information contained in this circular is accurate and complete in all material aspects and not misleading;
- (b) there are no other matters the omission of which would make any statement herein misleading; and
- (c) all opinions expressed in this circular have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

2. DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS

As at the Latest Practicable Date, the interests and short positions of the Directors, supervisors and the chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to rules 5.46 to 5.67 of the GEM Listing Rules to be notified to the Company and the Stock Exchange, were as follows:

Long positions in the shares, underlying shares and debentures of the Company

			Approximate percentage in the entire issued share capital of the Company
Director	Type of interests	Capacity	Number of Domestic Shares held
Chen Ping	Personal	Beneficial owner	36,392,320 10.72%

Other than as disclosed above, none of the Directors, supervisors and the chief executives of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which required (a) to be notified to the Company and the Stock Exchange

pursuant to Division 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to rules 5.46 to 5.67 of the GEM Listing Rules to be notified to the Company and the Stock Exchange.

3. SUBSTANTIAL SHAREHOLDERS’ AND OTHER PERSONS’ INTERESTS AND SHORT PERSONS

As at the Latest Practicable Date, so far as is known to the Directors, supervisors and chief executives of the Company, the persons (other than Directors, supervisors or chief executives of the Company) who have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO or who are directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group are as follows:

Long positions in the shares, underlying shares and debentures of the Company

Shareholder	Capacity	Number of shares held	Approximate percentage in the Company’s share capital
<i>Substantial shareholders</i>			
Insigma Technology	Beneficial owner	81,802,637 Domestic Shares	24.10%
Guoheng Media Science Group Company Limited	Beneficial owner	34,117,800 Domestic Shares	10.05%
<i>Other persons</i>			
Fong For	Beneficial owner	21,735,000 H Shares	6.40%
Wu Zhong Hao	Beneficial owner	16,490,280 Domestic Shares	4.86%
Shi Chun Hua	Beneficial owner	16,490,280 Domestic Shares	4.86%

Other than as disclosed above, the Directors, supervisors and the chief executives of the Company were not aware of any person (other than Directors, supervisors or chief executives of the Company) who had any interests or short positions in the shares or underlying shares which would fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO or who were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

4. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors and the management shareholders of the Company or any of their respective associates has engaged in any business that competes or may compete with the business of the Group or has any other conflict of interests with the Group.

5. DIRECTORS' SERVICE CONTRACTS

Each of the Directors has entered into a service agreement with the Company.

Each of Mr. Chen Ping, Mr. Xue Shi Cheng, Mr. Hu Yang Jun, Mr. Cai Xiao Fu, Mr. Zhang De Xin and Mr. Gu Yu Lin has entered into a service agreement with the Company for an initial term of three years commencing on 30 September 2004 while each of Ms. Pan Lichun and Mr. Shi Lie has entered into a service contract with the Company effective from 22 August 2005 until the conclusion of the next annual general meeting of the Company at the following remuneration:

Name of Director	Office	Remuneration <i>(RMB per annum)</i>
Mr. Chen Ping	Executive Director	250,000
Mr. Xue Shi Cheng	Executive Director	20,000
Mr. Hu Yang Jun	Executive Director	20,000
Ms. Pan Lichun	Executive Director	20,000
Mr. Shi Lie	Executive Director	20,000
Mr. Gu Yu Lin	Independent Non-executive Director	10,000
Mr. Cai Xiao Fu	Independent Non-executive Director	10,000
Mr. Zhang De Xin	Independent Non-executive Director	10,000

Such remuneration does not include any bonus and is equivalent to the current remuneration of the Director.

All appointments are subject to termination in certain circumstances as stipulated in the relevant service agreement. In the event that the appointment of the Director is terminated in the annual general meeting of the Company without any reason, the relevant Director may claim for compensation from the Company.

As at the Latest Practicable Date, none of the above service agreements has been terminated.

Save as disclosed above, as at the Latest Practicable Date, there is no other existing service agreement entered into or proposed service agreement to be entered into between any Director and any member of the Group (excluding agreements expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).

6. INTESESTS IN ASSETS AND CONTRACTS

As at the Latest Practicable Date, none of the Directors has any direct or indirect interest in any assets which have been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group, since 31 December 2005, being the date to which the latest published audited accounts of the Company were made up.

As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement subsisting at the Latest Practicable Date and which is significant in relation to the business of the Group.

7. LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration proceedings of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened by or against any member of the Group.

8. MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business) had been entered into by the Company or any of its subsidiaries within two years preceding the date of this circular and are or may be material:

- (a) The First Agreement.
- (b) The Second Agreement.
- (c) Articles of Association of 浙江浙大網新思創健康科技有限公司 (Insignia Inhealth Technology Co., Ltd.) (“Inhealth”) executed by 浙江思創信息技術有限公司 (Zhejiang Sichuang Information Technology Company Limited) (“Sichuang”), a non-wholly owned subsidiary of the Company, and Insignia Group, whereby Sichuang and Insignia Group agreed to contribute RMB7.5 million and RMB5 million to establish Inhealth.

- (d) Framework Contract dated 14 June 2006 entered into between the Company, 浙江天信科技發展有限公司 (Zhejiang Tianxin Science and Technology Development Company Limited) (“Zhejiang Tianxin”), Ms. Tao Tsaiyun, Mr. Guo Qing, Mr. Wu Weimin, Mr. Yu Keman and Mr. Weng Min (these persons collectively “Tianxin Shareholders”), whereby the parties agreed to sign agreements (e) to (g) below.
- (e) Exclusive Right to Purchase Contract dated 14 June 2006 entered into between the Company Zhejiang Tianxin and Tianxin Shareholders, whereby the Company agreed to pay Ms. Tao Tsaiyun RMB10,000,000 for the right to acquire up to but not exceeding 78% equity interest in Zhejiang Tianxin (or any part thereof) currently owned by Ms. Tao Tsaiyun.
- (f) Exclusive Business Cooperation Contract dated 14 June 2006 entered into between the Company and Zhejiang Tianxin, whereby the Company agreed to provide to Zhejiang Tianxin extensive technology support and consultation services, and Zhejiang Tianxin agreed to pay to the Company service fees determined and calculated on the basis of 78% of the cash value generated by Zhejiang Tianxin and its subsidiaries for their operations through various commercial arrangements after taking into account Zhejiang Tianxin’s requirement for working capital and capital expenditure.
- (g) The Pledge Contract entered into between the Company, Zhejiang Tianxin and Ms. Tao Tsaiyun dated 14 June 2006, whereby Ms. Tso Tsaiyun granted to the Company a continuing first priority security interest over her interests in the issued share capital of Zhejiang Tianxin to secure the full performance and discharge of the obligations of Zhejiang Tianxin under agreement (f) above.
- (h) Two Software Copyright Transfer Contracts dated 14 June 2006 entered into between the Company and Zhejiang Tianxin, whereby Zhejiang Tianxin agreed to assign certain copyrights (the “Softwares Copyrights”) of specific softwares owed by Zhejiang Tianxin to the Company at a consideration of RMB1 in respect of each assignment.
- (i) Software Copyright Licensing Contract dated 14 June 2006 entered into between the Company and Zhejiang Tianxin, whereby the Company agreed to grant Zhejiang Tianxin a licence to use the Software Copyrights for the payment of royalties the amount of which will be included in the service fees to be paid to the Company under agreement (f) above.

Details of agreement (c) have been disclosed in the Company’s announcement and circular dated 2 June 2006 and 23 June 2006 respectively. Details of agreements (d) to (i) have been disclosed in the Company’s announcement and circular dated 15 June 2006 and 7 July 2006 respectively.

9. EXPERT

- (a) The following are the qualifications of the experts who have given their opinions or advices which are contained in this circular:

Name	Qualification
KGI	A licensed corporation under the SFO to carry out types 1, 4 and 6 regulated activities

- (b) KGI has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name in the form and context in which they are respectively included.
- (c) As at the Latest Practicable Date, KGI did not have any shareholding in the Company, or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities of the Company.
- (d) The letter given by KGI is given as of the date this circular for incorporation herein.
- (e) As at the Latest Practicable Date, KGI did not have any direct or indirect interest in any assets which have been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group, since 31 December 2005, being the date to which the latest published audited accounts of the Company were made up.

10. GENERAL

- (a) The registered office of the Company is located at 4th Floor, 108 Gu Cui Road, Hangzhou City, PRC.
- (b) The principal place of business of the Company in Hong Kong is located at Units 1116-1119, Sun Hung Kai Center, 30 Harbour Road, Wanchai, Hong Kong.
- (c) The branch share registrar of the Company in Hong Kong is Hong Kong Registrars Limited at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong
- (d) The qualified accountant and the secretary of the Company is Miss Chan Ching Yi, Yvonne who is an associate member of The Association of Chartered Certified Accountants.
- (e) The compliance officer of the Company is Mr. Xue Shi Cheng who is also an executive Director.

- (f) The Company has established an audit committee in November 2001 with written terms of reference in compliance with the requirements as set out in the GEM Listing Rules. The primary duties of the audit committee of the Company are to review the Company's annual reports and accounts, half-yearly reports and quarterly reports and to provide advice and comments thereon to the Directors. The audit committee comprises the three independent non-executive Directors, namely Mr. Gu Yu Lin, Mr. Zhang De Xin and Mr. Cai Xiao Fu, whereas Mr. Gu Yu Lin is the chairman.

Mr. Gu Yu Lin, aged 35, is an assistant accountant. Mr. Gu graduated from the Faculty of Finance and Accounting of Fudan University in June 1997. Mr. Gu is currently working in the general office of Zhejiang University. He has been the independent supervisor of the Company before and was appointed as an independent non-executive Director since September 2004.

Mr. Zhang De Xin, aged 75, graduated from the Faculty of Electrical & Mechanical Engineering at Zhejiang University in July 1953 and at Tsing Hua University in June 1956 respectively. He attended Illinois Institute of Technology in the United States from June 1982 to May 1984 to conduct research in the fields of Electrical & Mechanical as well as Computer Engineering. Professor Zhang has served as a professor at Zhejiang University's faculties of Electrical & Mechanical Engineering, Wireless Engineering and Computer Science for 37 years since 1956. He has also been a committee member of Zhejiang Political Consultative Conference for two terms in 1988 and 1993. Moreover, Professor Zhang has been involved in numerous research projects and studies in computing networks. Professor Zhang is awarded winner of the Zhejiang Province Science and Technology Advancement in 1989, 1991 and 1993 for three times. Mr. Zhang joined the Company in October 2001.

Mr. Cai Xiao Fu, aged 66, is a senior engineer and the chairman of Zhejiang Province Software Industry Association, inspecting and monitoring the development of Zhejiang Province IT industry. Mr. Cai graduated from Tsing Hua University's faculty of Control Automation in July 1963. He attended the Polytechnic of Cranfield in the United Kingdom during October 1981 to January 1984 to research aeronautics and computer simulation devices. Mr. Cai is currently an independent non-executive director of Sino Stride Technology (Holdings) Limited, a company whose shares are listed on GEM (Stock code: 8177). Mr. Cai joined the Company in October 2001.

Save as disclosed above, each of the audit committee members has not held any directorship in any company listed on the Stock Exchange or other stock exchanges in the past three years.

- (g) In the event of any inconsistency, the English text of this circular shall prevail over the Chinese text.

11. DOCUMENTS FOR INSPECTION

Copies of the following documents are available for inspection during normal office hours at the office of Tsun & Partners at Suites 1002-03, Aon China Building, 29 Queen's Road Central, Hong Kong on the date of this circular and up to and including the date which is 14 days from the date of this circular and at the EGM:

- (a) the Articles of Association of the Company;
- (b) the material contracts referred to in the paragraph headed "Material Contracts" of this Appendix;
- (c) the letter from the Independent Board Committee dated 17 August 2006, the text of which is set out on page 12 of this circular;
- (d) the letter of advice from KGI dated 17 August 2006, the text of which is set out on pages 13 to 18 of this circular;
- (e) the written consent from KGI dated 17 August 2006 referred to in the paragraph headed "Expert" of this Appendix;
- (f) the annual report of the Company for the year ended 31 December 2004 and 2005;
- (g) the first quarterly report of the Company for the three months ended 31 March 2006;
- (h) the announcement of interim results for the six months ended 30 June 2006;
- (i) the service contracts referred to in the paragraph headed "Director's Service Contract" of this Appendix;
- (j) the circulars of the Company dated 23 March 2006, 23 June 2006 and 7 July 2006 respectively; and
- (k) this circular.

NOTICE OF EXTRAORDINARY GENERAL MEETING



浙江浙大網新蘭德科技股份有限公司

ZHEDA LANDE SCITECH LIMITED*

(a joint stock limited company incorporated in the People's Republic of China with limited liability)
(Stock Code: 8106)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the “EGM”) of the shareholders of Zheda Lande Scitech Limited* (the “Company”) will be held at 2:00 p.m. on 11 October 2006 at 1/F-3/F, Block 3, 108 Gu Cui Road, Hangzhou City, the PRC for the purpose of considering and, if thought fit, passing the following resolutions as ordinary resolutions:

ORDINARY RESOLUTIONS

“**THAT:**

- (1) (a) the terms and conditions of the Cross-Guarantee Agreement dated 4 July 2006 (the “First Agreement”) entered into between the Company, 浙江浙大網新集團有限公司 (Zheda Insigma Group Co. Ltd.) and 浙江浙大網新圖靈信息科技有限公司 (Zhejiang University Innovation Tuling Information Technology Company Limited), a copy of the First Agreement has been produced to the EGM marked “A” and signed by the chairman of the meeting for the purpose of identification), be and is hereby approved; and
- (b) the Directors authorized for and on behalf of the Company, among other matters, to sign, execute, perfect, deliver or to authorize signing, executing, perfecting and delivering the First Agreement be hereby approved, ratified and confirmed, and the Directors be and are hereby authorized to do or authorize doing all such acts, matters and things as they may in their discretion consider necessary, expedient or desirable to give effect to and implement the transactions pursuant to the First Agreement and to waive compliance from or make and agree such variations of a non-material nature to any of the terms of the First Agreement as they may in their discretion consider to be desirable and in the interest of the Company.
- (2) (a) the terms and conditions of the Cross-Guarantee Agreement dated 4 July 2006 (the “Second Agreement”) entered into between the Company, 浙江浙大網新集團有限公司 (Zheda Insigma Group Co. Ltd.) and 浙江浙大網新快威科技有限公司 (Zheda Innovation Qware Technology Co. Ltd.), a copy of the Second Agreement has been produced to the EGM marked “B” and signed by the chairman of the meeting for the purpose of identification), be and is hereby approved; and

* For identification purpose only

NOTICE OF EXTRAORDINARY GENERAL MEETING

- (b) the Directors authorized for and on behalf of the Company, among other matters, to sign, execute, perfect, deliver or to authorize signing, executing, perfecting and delivering the Second Agreement be hereby approved, ratified and confirmed, and the Directors be and are hereby authorized to do or authorize doing all such acts, matters and things as they may in their discretion consider necessary, expedient or desirable to give effect to and implement the transactions pursuant to the Second Agreement and to waive compliance from or make and agree such variations of a non-material nature to any of the terms of the Second Agreement as they may in their discretion consider to be desirable and in the interest of the Company.”

By Order of the Board

Chen Ping

Chairman

17 August 2006, Hangzhou, the PRC

Notes:

1. A member entitled to attend and vote at the above meeting is entitled to appoint one or more than one proxy to attend and vote on his behalf. A proxy need not be a member of the Company.
2. To be valid, a form of proxy and the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of such authority, (i) as regards to the holders of H Shares, shall be lodged with the Company's branch share registrar in Hong Kong, Hong Kong Registrars Limited at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong; and (ii) as regards to the holders of Domestic Shares, shall be lodged at the Company's registered office at 4th Floor, 108 Gu Cui Road, Hangzhou City, the PRC, as soon as possible and in any event not later than 24 hours before the time scheduled for holding such meeting (or any adjourned meeting thereof).
3. Shareholders or their proxies shall present proofs of identities upon attending the above meeting.
4. The Register of Members will be closed from 11 September 2006 to 10 October 2006 (both days inclusive), during which period no transfer of shares will be registered. In order to attend the above meeting, all transfer documents accompanied by relevant share certificates must be lodged with the Company's H Share Registrar not later than 4:00 p.m. on 8 September 2006 in order to be registered as a member of the Company.
5. Shareholders entitled to attend the above meeting are requested to deliver the reply slip for attendance to the Company to be received by the Company 20 days before the date of meeting.